

DEPARTMENTS OF TRANSPORTATION, TREASURY, THE JUDICIARY, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2007

THURSDAY, MARCH 2, 2006

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 9:32 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Murray, Kohl, Dorgan, and Leahy.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. ALPHONSO JACKSON, SECRETARY

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The Senate Appropriations Subcommittee on Transportation, Treasury, Judiciary, HUD, and Related Agencies will come to order, and it is a pleasure once again to welcome an old friend, Secretary Alphonso Jackson, and extend our sincere thanks for appearing before us today to testify on the Department of Housing and Urban Development's fiscal year 2007 budget request.

Mr. Secretary, we are looking forward to your comments on both the fiscal year 2007 budget as well as HUD's responsibilities with regard to the overwhelming disaster and rebuilding issues facing the gulf coast because of Hurricane Katrina and related storms.

HUD's budget request proposes some \$33.65 billion for fiscal year 2007, a decrease of \$621 million, or 2 percent, from the 2006 funding level. Unfortunately, this request does not reflect the true extent to which many important housing and community development programs are compromised. In particular, because of needed increases to section 8 funding, funding for many widely supported programs, such as CDBG, public housing capital funding, HOPE VI, section 202 for the elderly, and section 811 housing for the disabled has been slashed. In addition, the budget includes a \$2 billion rescission of excess section 8 funds, which we are waiting to see where and how they would be available, also existing FHA sin-

gle-family mortgage insurance program that is marred by a shrinking share of the homeownership market, and increased default rates.

In addition to the very difficult decisions posed by the HUD fiscal year 2007 budget, the subcommittee will also have to face substantial shortfalls in many other accounts, including, for example, a \$400 million gap in proposed Amtrak funding, not enough to support Amtrak's funding needs, and I am not even sure that flat funding would meet the needs in 2007.

Another example of the difficult decisions is the administration proposes to cut \$765 million from the airport improvement program, which is critical to maintaining and improving infrastructure in our airports.

These are just two examples. You have got enough headaches. But these are the range of headaches that we have in the budget that we have been given, and we face huge challenges in balancing the decisions for all our programs in a very tight funding year with HUD, as always, representing one of our largest challenges. And that is why we are always glad to see you here, Mr. Secretary.

I know you have worked hard to defend these programs, and your work is greatly appreciated. You have been able to convince OMB of the importance of the section 8 program, which is adequately funded, even though I am not happy with the mandate that you have to push section 8 into a block grant assistance program. If anybody wants to talk about that, we will be happy to explain to them what we think are the very real and perhaps insurmountable problems with that.

CDBG

I am disappointed the CDBG level has been reduced by \$1.15 billion, but I am gratified that HUD was able to keep it, and keep it within this subcommittee, even at what is a significantly smaller budget for 2007. And, again, we appreciate the great leadership you have shown in helping OMB come to some slightly more reasonable judgments and requests.

I think it is critical that HUD maintains the section 8 in public housing, CDBG, and HOME, flagship areas, along with FHA mortgage insurance that is necessary if HUD is to continue to play its role as a leader in housing and community development activities. And it requires adequate funding and your responsibility for these programs.

PUBLIC HOUSING OPERATING FUND

The OMB continues to undermine many important programs which are critical to housing and community development needs. I am very much concerned that the public housing operating fund is flat-funded at \$3.56 billion. We are moving toward implementation of an asset-based management of public housing. Unfortunately, the funding level does not meet the needs of these new operating requirements, nor does the funding address HUD's inclination to micromanage how PHAs will have to meet these new requirements.

If you cut the budget significantly of any Government entity, the least you could do is give them the flexibility to use the funds how they can best be utilized. And this is very difficult for you or me

or any of us in Washington to tell a PHA in Washington or Missouri or Texas what their problems are and how they are going to use their funds.

HOPE VI

Once again, OMB has gone after one of the programs I started, HOPE VI. They propose rescinding all of the 2006 funding even though it is being used. They propose eliminating HOPE VI in 2007 and reducing the Public Housing Capital Fund by some \$261 million. If enacted, these proposals would substantially diminish the effectiveness of every program that is designed to address the capital needs of PHAs.

More troubling, in support of eliminating HOPE VI, the administration argues PHAs can use their Capital Fund for bond collateral or debt service of loans in support of rehab and construction. Nevertheless, if at the same time capital funds are reduced or eliminated, the administration is undermining its justification for eliminating HOPE VI because lenders simply will not lend, and if they do, the cost of any bonds or debt will increase. So that OMB policy just makes no sense.

REDUCTION IN CDBG

Also, obviously, I am concerned over the reduction in CDBG. As you and I and my colleagues know, this is supported by every mayor and Governor in the Nation and reflects the important principles of deferring to State and local decisionmaking and how to address local housing and community development needs instead of relying on some cubicle in the basement of the Old Executive Office Building in Washington. This is an important program, and I am troubled by OMB's continuing efforts to whittle this program to nothing.

I do not have time to highlight all of my concerns with the budget. We will be having lots of correspondence and telephone calls with you over many, many more problems, but I do note the budget undermines funding for section 202 elderly and section 811 disabled housing. Both programs are very important in addressing the needs of our most vulnerable and needy citizens. The elderly housing program is especially important since we know the need for elderly housing will skyrocket for the foreseeable future due to the aging of not only my generation but the baby boomers coming along behind.

And then, once again, this committee has strongly supported the Lead Hazard Reduction program and the Rural Housing and Economic Development programs. These were our programs. They met an important need, and OMB went after them again. Certainly they have my attention. They cut everything that I have worked with my colleagues to put into the HUD portfolio because I think based on our examination and discussions they make sense.

Nevertheless, I know you have tried very hard, Mr. Secretary, to fund many of these programs, but I think there is still hope, and we appreciate your good work. You deserve great credit, and I thank you for fighting for a balance in the funding of HUD programs against what I consider to be the worst instincts of the budget geeks in the basement of OMB. Nevertheless—and if there

are any OMB people here, we will discuss that at greater length, if you wish to. The subcommittee needs to find more funds for HUD programs. We should not be trying to balance the budget and eliminate the deficit on the backs of our communities and most vulnerable citizens.

I am an infrastructure Republican, and many of these programs are not only critical to recipients, communities, and States, but are critical in the creation of jobs, helping leverage new private and public investments in our vital communities and increasing their tax base. I think they are good investments for the Federal Government. They are investments I strongly support.

FUTURE OF FHA

Finally, let me share with you my concern over the FHA single-family mortgage program. It is imploding. FHA's share of the market dropped 40 percent in fiscal year 2005. In particular, FHA home sales dropped to 4.3 percent in 2005 compared with 7.6 percent in 2004, despite overall home sales being up 7 percent in 2005. In addition, FHA endorsements dropped 46.7 percent in 2005, while insurance-in-force dropped 13 percent. Finally, and most troubling, default rates increased to 6.36 percent in fiscal year 2005, a 0.2 percent increase over the previous year.

Over the last several years, in every HUD budget hearing, I have raised concerns about the viability and the future of HUD's FHA single-family mortgage insurance program. In every instance, my warnings and questions have been ignored, and I have been advised that the future is bright. The future is not bright unless you consider a burning trash dump bright. It may be time to close out FHA mortgage insurance for single families in deference to the marketplace or re-establish FHA as a private government corporation.

I know that HUD plans to submit legislation to grow FHA receipts by increasing its ability to attract homebuyers with better credit ratings as well as balancing these new receipts to help families with poor credit risk become homeowners.

PREPARED STATEMENT

I think we first need to understand whether the FHA single-family mortgage insurance program is needed in today's market, and if so, how it is needed. I am concerned that HUD's new FHA model may be designed to take on more risks, not only risks associated with poor credit homeowners but the risk of lenders who face losses and who under the HUD proposal will be able to pass the risk of these losses onto FHA.

I appreciate your time today, Mr. Secretary, and now it is a pleasure to turn to my ranking member and partner on this subcommittee, Senator Murray.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

The Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, HUD and Related Agencies will come to order. We welcome Secretary Alphonso Jackson and thank him for appearing before us today to testify on the Department of Housing and Urban Development's fiscal year 2007 budget request. Mr. Secretary, I look forward to your comments on both the fiscal year 2007 budget as well

as HUD's responsibilities with regard to the overwhelming disaster and rebuilding issues facing the Gulf Coast because of Hurricane Katrina and related storms.

HUD's budget request proposes some \$33.65 billion for fiscal year 2007, a decrease of some \$621 million, or some 2 percent, from the fiscal year 2006 funding level of \$34.27 billion. Unfortunately, this funding request does not reflect the true extent to which many important housing and community development programs are compromised. In particular, because of needed increases to section 8 funding, funding for many widely supported programs, such as CDBG, Public Housing Capital funding, HOPE VI, section 202 Elderly and section 811 housing for the disabled, has been slashed. In addition, the budget includes a \$2 billion rescission of excess section 8 funds which are unlikely to be available as well as an existing FHA Single Family Mortgage Insurance program that is marred by a shrinking share of the homeownership market and increased default rates.

In addition to the very difficult decisions posed by the HUD fiscal year 2007 budget, this subcommittee will also have to face substantial shortfalls in many of its other accounts, including, for example, a shortfall of some \$400 million in the proposed Amtrak funding level for fiscal year 2007. This proposed funding level is clearly not enough to support Amtrak's funding needs and I am not sure that even flat funding will meet Amtrak's anticipated expenses in fiscal year 2007. Another harsh example of the difficult decisions faced by this subcommittee is the administration's proposed cut of \$765 million in fiscal year 2007 to the Airport Improvement Program. This program is critical to maintaining and improving the infrastructure of our Nation's airports. And these are only two examples of a number of significant funding hits taken by programs within our jurisdiction. Consequently, this subcommittee is facing huge challenges in balancing the funding decisions for all our programs in a very tight funding year with HUD representing one of our largest challenges.

I am pleased, Mr. Secretary, that you have convinced the administration of the importance of the section 8 program which is adequately funded for the year even if I am dismayed by your continuing support of the administration's proposal to block grant section 8 assistance. And while I am disappointed that CDBG has been reduced by some \$1.15 billion from the fiscal year 2006 level, I am gratified that it continues to be funded within HUD and in this subcommittee even at a proposed paltry \$3.03 billion for fiscal year 2007. I think it is critical that HUD maintain section 8 and Public Housing, CDBG and HOME, and FHA mortgage insurance—these are the 3 flagship areas of housing and community development assistance and HUD's role as the Nation's leader in housing and community development activities depends on adequate funding and responsibility for these programs.

Nevertheless, this administration continues to undermine many important programs within HUD which are critical to the housing and community development needs of our States and communities, especially our low-income communities.

First, I am concerned that the Public Housing Operating fund is flat funded at \$3.56 billion. We are moving toward the implementation of asset-based management of public housing. Unfortunately, the administration's funding level does not meet the needs of these new operating requirements; nor does the funding address HUD's inclination to micromanage how PHAs will have to meet these new requirements. Moreover, the administration has proposed rescinding all fiscal year 2006 HOPE VI funding, eliminating the HOPE VI program for fiscal year 2007 and reducing the Public Housing Capital Fund by some \$261 million. These proposals, if enacted, will substantially diminish the effectiveness of every program that is designed to address the capital needs of PHAs. More troubling, in support of eliminating HOPE VI, the administration argues that PHAs can use their Capital Fund for bond collateral or for the debt service of loans in support of rehabilitation and construction. Nevertheless, if capital funds are reduced or eliminated, the administration is undermining its justification for eliminating HOPE VI because lenders simply will not lend and, if they do, the cost of any bonds or debt will increase. Overall, this administration policy makes little or no sense.

I am also concerned over the proposed reduction to CDBG by some \$1.15 billion in fiscal year 2007. This account is supported by every mayor and governor in the Nation and reflects the important principle of deferring to State and local decision-making in how to address local housing and community development needs, instead of relying on some nameless bureaucrat in a cubical in Washington. This is an important program and I am troubled by the administration's continuing efforts to whittle this program into almost nothing.

I am not going to highlight my every concern with HUD's budget—I will note, however, that the budget undermines funding for the section 202 elderly housing program and the section 811 housing for the disabled program. Both programs are very important since they address the needs of our most vulnerable and needy citi-

zens. The elderly housing program is especially important since we know the need for elderly housing will skyrocket for the foreseeable future due to the aging of the baby boomer population. In addition, the fiscal year 2007 budget eliminates the Lead Hazard Reduction program and the Rural Housing and Economic Development program, both of which I helped to author and both of which meet specific and real needs in our communities.

Nevertheless, Mr. Secretary, I think you have tried hard to push for the HUD budget and to fund many of these programs—perhaps not all the programs, but I think there is still hope for you. In any event, you deserve credit for fighting for a balance in the funding of HUD's programs against what I consider to be the worst instincts of the budget geeks in the basement of OMB. Nevertheless, this subcommittee needs to find more funds for HUD's programs. We should not be trying to balance the cost of the deficit on the backs of our communities and most vulnerable citizens. I am an infrastructure Republican and many of these programs are not only critical to recipients, communities and States but are critical in the creation of jobs, in helping to leverage new private and public investments and in increasing the tax base of our communities. This is a good investment for the Federal Government and it is an investment I support.

Finally, I want to express my concerns over the FHA Single Family Mortgage Insurance program. This program is imploding. FHA's share of the market dropped 40 percent in fiscal year 2005. In particular, FHA home sales dropped to 4.3 percent in 2005 compared with 7.6 percent in 2004, despite overall home sales being up 7 percent in 2005. In addition, FHA endorsements dropped 46.7 percent in fiscal year 2005 while insurance-in-force dropped 13 percent. Finally, default rates increased to 6.36 percent in fiscal year 2005, compared to 6.13 percent in fiscal year 2004.

Over the last several years, in every HUD budget hearing, I have raised concerns about the viability and future of HUD's FHA Single Family Mortgage Insurance program. In every case, I have been ignored and advised that the future is bright. The future is not bright unless you consider a burning trash dump bright. It may be time to close out the FHA Mortgage Insurance program in deference to the marketplace or re-establish FHA as a private government corporation.

I know HUD plans to submit legislation to grow FHA receipts by increasing its ability to attract homebuyers with better credit ratings as well as balancing these new receipts to help families with poor credit risks become homeowners. I think we first need to understand whether the FHA Single Family Mortgage Insurance program is needed in today's market, and, if so, how it is needed. I am concerned that HUD's new FHA model may be designed to take on more risks—not only the risks associated with poor credit homeowners but the risks of lenders who face losses and who, under the HUD proposal, will be able to pass the risks of these losses on to FHA.

Mr. Secretary, I appreciate your time today and I now turn to my ranking member and partner on this subcommittee, Senator Murray.

STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Well, thank you very much, Mr. Chairman, and, Mr. Secretary, I welcome you here. I hope we have a productive hearing, although it sounded to me like listening to the statement from the chairman that maybe we should have OMB in front of us. That might be more productive.

Senator BOND. I might lose my temper.

Senator MURRAY. All right. Well, thank you again, Mr. Secretary, for being here today. It has been more than 6 months since Hurricane Katrina reminded all of us of the ongoing poverty that grips so many American families today. After the storm, millions of us gathered around our television sets and saw vulnerable Americans struggling for their dignity and struggling for their lives.

One of the little-known facts about Hurricane Katrina was that public housing authorities across the country made heroic efforts to find housing, to relocate hurricane victims, and I want to commend them today for their hard work and their compassion.

But the sad fact is that every one of those public housing authorities already had long waiting lists of local families who had

been waiting years for housing to become available. That means the efforts to house Katrina victims pushed other poor families further down a very long waiting list. Those families who were pushed down the list were in most cases no less poor, no less desperate, and in some cases, no less homeless than the Katrina victims. And the vast majority of them are still waiting for an available unit today.

We should not be in a position where, if we respond to a disaster, our only choice is to hurt families who have been waiting years for housing. But that is the position we find ourselves in today, and there is one reason why: years of misguided housing budgets. And now we are once again working on a new budget for the coming fiscal year, and we should not make the same mistakes again.

Unfortunately, that is exactly what the President's budget would do. HUD has a very critical mission: to promote homeownership, ensure safe rental housing, house the homeless, rejuvenate desolate communities, and provide hope to a great many struggling Americans.

We are talking about the impoverished elderly. We are talking about disabled citizens who have very unique housing needs. We are talking about the working poor who are climbing the economic ladder.

Now, I have often said that budgets are about priorities, and it is clear that the Bush administration's priorities are not with the missions of the Department of Housing and Urban Development. The President's budget for the coming fiscal year proposes to increase discretionary spending by 3.2 percent, but within that total, HUD is singled out for a cut of 1.8 percent. The Community Development Block Grant is slated for a cut of more than \$1 billion.

HOPE VI

All funds for the HOPE VI program that the chairman mentioned, a program designed to demolish and replace our most decrepit public housing units, is proposed for elimination in the Bush budget. In fact, the administration budget goes even further and calls on Congress to eliminate the funding that we have already appropriated for this program in 2006. Housing for the elderly is cut by 26 percent, while housing for the disabled is cut by 50 percent.

These proposed cuts come at a time when every study tells us that these populations are growing, and growing rapidly.

One thing that has been very clear to every American this winter is the fact that utility costs have risen dramatically. It seems that everyone knows that except for the Bush administration. While utility costs have risen dramatically for public housing authorities across America, the Bush administration wants to freeze operating funds for public housing authorities for the fifth year in a row.

Funding for the public housing capital fund, which is intended to keep over 13,000 public housing properties from falling into dilapidated, decrepit, and inhumane conditions, is singled out for an 11 percent cut.

As I said earlier, the President's budget proposes to increase discretionary spending by 3.2 percent, but all of the rhetoric and public housing statements and his OMB Director have sought to divide

this budget into three separate categories: funding for defense, funding for homeland security, and funding for everything else. That implication is pretty clear. In the view of the Bush administration, programs in that third category, programs that educate our children, prevent disease, house the underprivileged, are the least worthy of public funds.

Within this third category, the President proposes to cut overall spending by a half percent, but for HUD, which falls entirely into this third category, the administration is proposing a much larger cut of 1.8 percent.

The message to me is clear: The non-defense, non-homeland security portion of the budget is a low priority for this President, and funding for HUD's work is an even lower priority.

Now, it is worth noting that while the administration is proposing to cut the HUD budget by more than \$620 million, they are proposing to boost spending for exploration systems in NASA by more than \$860 million. Now, like a lot of my colleagues, I do support the overall goal of space exploration. I think it is great. But when it comes to sending an astronaut to Mars or housing our elderly and disabled neighbors here on Earth, there is no doubt where my priorities lie.

Mr. Chairman, last year, with your strong support, we were able to fend off many of the painful cuts that were included in the President's budget for HUD. Unfortunately, we were handed an allocation by a budget resolution that I did not support that resulted in our having to accept some of those proposed cuts. Last year, our appropriations bill did cut Community Development Block Grant program by more than \$0.5 billion. We did cut HOPE VI program by 31 percent.

Now, I am a member of the Budget Committee—as you used to be, Mr. Chairman, and we miss you there.

We do need you back.

PREPARED STATEMENT

If we are presented, however, with a budget resolution that continues to cut the Community Development Block Grant program, I want you to know I am going to be the first Senator out of the box offering amendments to restore those cuts.

I hope that together you and I can work toward ensuring that we get a budget resolution this time that will allow us to reject those ill-conceived proposals so we can keep faith with the people who need HUD assistance the most.

Thank you very much, Mr. Chairman, and thank you, Mr. Secretary.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

Thank you, Mr. Chairman and welcome Secretary Jackson.

It's been more than 6 months since Hurricane Katrina reminded all of us of the ongoing poverty that grips so many American families.

After the storm, millions of us gathered around our television sets and saw vulnerable Americans struggling for their dignity and struggling for their lives.

One of the little known facts about Hurricane Katrina was that public housing authorities across the country made heroic efforts to find housing to relocate hurricane victims. I want to commend them for their hard work and compassion.

But the sad fact is that every one of those public housing authorities already had long waiting lists of local families who had been waiting years for housing to become available.

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Those families who were pushed down the list were, in most cases, no less poor, no less desperate and, in some cases, no less homeless, than the Katrina victims. And the vast majority of them are still waiting for an available unit today.

We shouldn't be in a position where—if we respond to a disaster—our only choice is to hurt families who have been waiting years for housing.

But that's the position we find ourselves in today—and there is one reason why—years of misguided housing budgets.

And now, we're once again working on a new budget for the coming fiscal year. We should not make the same mistakes again.

Unfortunately, that's exactly what the President's budget would do.

HUD has a critical mission—to promote home ownership, ensure safe rental housing, house the homeless, rejuvenate desolate communities, and provide hope to a great many struggling Americans.

—We are talking about the impoverished elderly.

—We are talking about disabled citizens who have unique housing needs.

—We are talking about helping the working poor climb the economic ladder.

I have often said that budgets are about priorities. And it is clear that the Bush Administration's priorities are not with the missions of the Department of Housing and Urban Development.

The President's budget for the coming fiscal year proposes to increase discretionary spending by 3.2 percent. But within that total, HUD is singled out for a cut of 1.8 percent.

The Community Development Block Grant—or CDBG—program, is slated for a cut of more than a billion dollars.

All funds for the HOPE VI program—a program designed to demolish and replacing our most decrepit public housing units—is proposed for elimination in the Bush budget.

In fact, the administration's budget goes even further and calls on the Congress to eliminate the funding that we have already appropriated for this program in 2006.

Housing for the elderly is cut by 26 percent, while housing for the disabled is cut by 50 percent. These proposed cuts come at a time when every study tells us that these populations are growing—and growing rapidly.

One thing that has been clear to every American this winter is the fact that utility costs have risen dramatically. It seems that everyone knows that—except for the Bush Administration.

While utility costs have risen dramatically for public housing authorities across America, the Bush Administration wants to freeze operating funds for public housing authorities for the fifth year in a row.

Funding for the Public Housing Capital Fund—which is intended to keep over 13,000 public housing properties from falling into dilapidated, decrepit and inhumane conditions—is singled out for an 11 percent cut.

As I said earlier, the President's budget proposes to increase discretionary spending by 3.2 percent, but all of the rhetoric and public statements by the President and his OMB Director have sought to divide this budget into three separate categories:

—funding for Defense;

—funding for homeland security, and

—funding for everything else.

Their implication is clear.

In the view of the Bush Administration, programs in this third category—programs that educate our children, prevent disease, or house the underprivileged—are the least worthy of public funds.

Within this third category, the President proposes to cut overall spending by 0.5 percent. But for HUD, which falls entirely into this third category, this administration is proposing a much larger cut of 1.8 percent.

The message is clear:

—the non-defense, non-homeland security portion of the budget is a low priority for the President,

—and funding for HUD's work is an even lower priority.

It is worth noting that, while the administration is proposing to cut the HUD budget by more than \$620 million, they are proposing to boost spending for Exploration Systems in NASA by more than \$860 million.

Like many of my colleagues, I support the overall goal of space exploration. But when it comes to sending an astronaut to Mars or housing our elderly and disabled neighbors here on earth, there's no doubt where my priorities lie.

Mr. Chairman, last year, with your strong support, we were able to fend off many of the more painful cuts included in President Bush's budget for HUD.

Unfortunately we were handed an allocation by a budget resolution that I did not support that resulted in our having to accept some of his proposed cuts.

Last year, our appropriations bill did cut the Community Development Block Grant program by more than half a billion dollars. We did cut the HOPE VI program by 31 percent.

I am a member of the Budget Committee, as you used to be, Mr. Chairman. If we are presented with a budget resolution that continues to cut the Community Development Block Grant program, I am going to be the first Senator out of the box offering amendments to restore those cuts.

I hope that, together, you and I can work together toward ensuring that a budget resolution is adopted that will allow us to reject these ill-conceived proposals so that we can keep faith with the people who need HUD assistance the most.

Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Murray.
Now, Mr. Secretary, if you would begin.

STATEMENT OF HON. ALPHONSO JACKSON

Secretary JACKSON. Thank you very much. Good morning, Chairman Bond and Ranking Member Murray, and other distinguished members of the committee. I thank you for the opportunity to be here to discuss the President's proposed budget of fiscal year 2007. It is a good budget, and I encourage you to give it your support.

The President is very concerned about helping all Americans have access to affordable housing that is decent and dignified, and his \$33.6 billion budget request for HUD demonstrates that concern.

At the same time, the President understands that fiscal restraint is necessary if we want to reduce the deficit and keep the economy growing as it has been and help everybody by creating more jobs and higher wages.

I want to highlight how the President's budget will help HUD achieve the mission Congress has assigned to us, particularly in three areas: helping more Americans own their own homes, especially folks who always thought homeownership was out of reach; helping those not ready or willing to own their own home to find decent rental housing; and reforming the way the Federal Government supports community development by better focusing block grant resources toward the most needy, while beginning to consolidate community development programs under one umbrella at HUD.

First, Mr. Chairman, is helping more Americans achieve the dream of homeownership.

If Congress will enact HUD's proposed changes to the National Housing Act, the FHA will make its mortgage insurance more flexible so that more Americans can qualify for mortgages without paying sub-prime rates. This will help more low-income families own and keep their homes.

FHA FORECLOSURE MORATORIUM

Speaking of FHA, I am pleased to say that HUD has just announced a further extension of the FHA foreclosure moratorium for victims of Hurricane Katrina. Borrowers with FHA loans now have

until March 31 to show that they have made long-term payment arrangements with their banks. If they do, they will have foreclosure protection until the end of June. And this is in addition to HUD's agreement to make interest-free loans to hurricane-affected families to pay their FHA-insured mortgages for a year.

HOME PROGRAM

The President's budget includes \$1.9 billion for the HOME Investment Partnerships program. In the past, every HOME dollar allocated has attracted \$3.60 in private sector investments.

Under that program, the President has proposed that the American Dream Downpayment Initiative, what we call "ADDI," be funded at \$100 million. Though it is a new program, ADDI funds have already assisted 13,845 low-income families to become first-time homebuyers.

HOMEOWNERSHIP VOUCHER PROGRAM

Another young but important program helping low-income and minority families become homeowners is the Homeownership Voucher program, which allows families on section 8 rental assistance to use their vouchers to pay a mortgage on their own home for up to 10 years. The program has already helped 5,000 low-income families own a home in the last 4 years, and we expect to have helped 3,000 more by the end of fiscal year 2007.

HOUSING COUNSELING

The President has proposed \$45 million for housing counseling. This is a proven method for helping low-income families to prepare themselves for the responsibilities of homeownership, avoid predatory lending practices, and avoid foreclosure. This program, in continuing partnership with many faith-based and community organizations, would be able to assist approximately 600,000 families in 2007 if the President's proposal is adopted.

Second, Mr. Chairman, is helping other low-income families find decent, dignified, and affordable rental housing.

HOUSING CHOICE VOUCHER RENTAL ASSISTANCE PROGRAM

HUD's largest program, at \$16 billion, is the Housing Choice Voucher Rental Assistance program. Because of unsustainable cost increases, Congress wisely changed this to a dollar-based system. But for the new system to work better, Congress needs to pass legislation to allow the PHAs to design their own rent policies. That is why the administration is asking Congress to pass Senator Wayne Allard's State and Local Housing Flexibility Act, Senate Bill 771. And I want to thank the Senator for his leadership on this important issue.

HUD continues its work to help communities remove unnecessary regulatory barriers to the development of low-income housing—through America's Affordable Communities Initiative and its Regulatory Barriers Clearinghouse.

The 2007 budget also proposes funding an additional 3,000 housing units for the elderly and persons with disabilities. All expiring rental assistance contracts are being renewed, and all construction

that is in the pipeline already is still eligible for amendment funds if their construction costs increase.

In order to help more Native Americans become homeowners, the President proposes increasing the section 184 loan guarantees program by more than 100 percent, over fiscal year 2006, to \$251 million. He also wants to increase funding to support housing for persons with HIV/AIDS to \$300 million, enough to provide assistance to an estimated 75,000 households. Our budget request includes a provision that would allow us to allocate these funds more fairly based on housing cost differences across the country.

HOMELESS ASSISTANCE

The administration also remains committed to helping the homeless. HUD has aggressively pursued policies to move the homeless into permanent housing. This budget proposes to increase the amount for homeless assistance to \$1.5 billion, enough to house more than 160,000 individuals.

CDBG

Third, Mr. Chairman, is laying the groundwork for reform of the way Federal resources are used to support community development. A key part of HUD's mission is to strengthen communities so that they can be better places to live, work, and raise families. HUD is committed to developing better performance measures for the Community Development Block Grant program, but we need a better way to target the CDBG funds to those most in need. So HUD will propose a new formula for the CDBG allocation very soon to you. Also, since the Community Development Block Grant program is staying at HUD, the President's proposed budget consolidates three other similar programs within HUD into the CDBG, laying the groundwork for further governmentwide consolidation later after HUD proves that the reforms are working well.

In conclusion, Mr. Chairman, the administration's budget provides ample resources for promoting homeownership, fair and affordable housing, and community development—the key elements of the mission that Congress has assigned to HUD.

PREPARED STATEMENT

This is a good budget, Mr. Chairman and ranking member, and I respectfully urge you to ask Congress to adopt it.

I thank you for this opportunity to speak before you today on the 2007 budget, and I am now available for questions that you might have.

[The statement follows:]

PREPARED STATEMENT OF ALPHONSO JACKSON

Chairman Bond, Ranking Member Murray, distinguished Senators of the subcommittee, the President's proposed fiscal year 2007 budget truly reflects his intent to address our Nation's housing, economic, and community development requirements. HUD's \$33.6 billion fiscal year 2007 budget seeks to build on our success and lend a compassionate hand to Americans in need, while using taxpayer money more wisely and reforming several HUD programs.

Over the past 5 years, HUD has successfully implemented the President's agenda to spur on economic and community development by promoting homeownership, particularly among the lowest-income Americans; increased access to affordable rental

housing, while combating all forms of discriminatory housing practices; and made a commitment to focus community development dollars better on those most in need by increasing local control. At the same time, HUD has improved the operational efficiency of the Department. The President's fiscal year 2007 budget request will allow the Department to build upon those successes by advancing the core mission given to HUD by Congress.

HOW HUD WILL PROMOTE ECONOMIC AND COMMUNITY DEVELOPMENT THROUGH HOMEOWNERSHIP

The President's vision for an ownership society correctly focuses on the reality that the ownership of private property helps human beings prosper. There is ample evidence to prove the President's assertion that ownership promotes financial independence, the accumulation of wealth, and healthier communities. Chief among the things a person can own is his own home.

Under President Bush's leadership, this administration has achieved new records in the rate of homeownership. Today, nearly 70 percent of the Nation and more than 51 percent of minorities own their homes. Despite achieving the highest homeownership rate in American history, minorities remain less likely than non-Hispanic whites to own their homes. To close this gap, President Bush challenged the Nation to create 5.5 million minority homeowners by the end of the decade, and to date 2.6 million minority families have joined the ranks of homeowners. While President Bush is pleased with the progress made, there is more to be done.

The President's proposed budget will help HUD to further that mission by transforming the Federal Housing Administration (FHA) so that it can expand homeownership opportunities for low- and moderate-income families; spur Fannie Mae and Freddie Mac to lead the market to create more affordable homeownership opportunities; help more of the lowest-income Americans make a downpayment through the HOME Investment Partnerships program (HOME) and the American Dream Downpayment Initiative (ADDI); transition more Americans from HUD assisted rental housing to homeownership through the Homeownership Voucher program; and, through our rapidly-growing partnership with faith-based and community organizations, increase the level of housing counseling that has been so useful in helping families prepare for homeownership, avoid predatory lending practices, and avoid default on their homes.

FHA Product Transformation.—HUD proposes to amend the National Housing Act, which was created in 1934 to create the FHA and its mortgage insurance programs. The National Housing Act has not been updated in over 70 years. Existing statutory requirements prevent FHA from updating its products; this lack of flexibility has allowed a resurgence of high-cost loans similar to those that predominated in 1934, such as interest-only and short-term balloon loans.

The original purpose of the National Housing Act was to encourage lenders to offer loans that were less risky for consumers. If Congress will enact changes to the National Housing Act to allow FHA flexibility to offer insurance for loans of different term, cash requirement, and amortization, then FHA could make it possible for additional buyers to enter the market, thus aiding both consumers and the lending industry. This is a top legislative priority for me this year and I look forward to working with Congress to see it enacted.

Using HOME and ADDI to Help More Low-income Families Own Their Own Homes.—For many low-income Americans, the single greatest obstacle to homeownership is the cash requirement for downpayment and closing costs.

The HOME Investment Partnerships program, the largest Federal block grant program of its kind, completed nearly 72,000 units of affordable housing in 2005, often in partnership with nonprofits, States, and local governments. The administration proposes to increase the HOME program to \$1.9 billion in 2007. Each HOME dollar allocated typically attracts \$3.60 from private sector investments.

Within the HOME allocation, ADDI funds have assisted 13,845 families to become first-time homebuyers, at an average subsidy amount of \$7,431. More than 47 percent of those assisted are minority homeowners. We have requested \$100 million for fiscal year 2007 to further enhance homeownership in America through ADDI.

Homeownership Voucher Program.—I am very proud to report that during this program's first 4 years, over 5,000 low-income families have been moved from the section 8 rental program rolls into the ranks of homeownership. By the end of fiscal year 2007, the program will provide homeownership opportunities for approximately 8,000 families.

Counseling Our Way to Greater Homeownership.—Housing counseling is an extremely important tool to help Americans purchase and keep their homes. The fiscal year 2007 budget proposes \$45 million for housing counseling in order to prepare

families for homeownership, help them avoid predatory lending practices, and help current homeowners avoid default. In partnership with faith-based and community organizations, HUD will assist approximately 600,000 families to become homeowners or avoid foreclosure in fiscal year 2007. More than ever, potential homebuyers need assistance to make smart homeownership choices. Housing counseling is the most cost-effective way to educate individuals and arm them with the knowledge to make informed financial choices and avoid high risk, high cost loans, and possible default and foreclosure.

HOW HUD WILL INCREASE ACCESS TO AFFORDABLE HOUSING

While homeownership is one of President Bush's top priorities, the President realizes that it is not a viable option for everyone. The largest component of HUD's budget promotes decent, safe, and affordable housing for families and individuals who may not want to become homeowners or who may not yet be ready to purchase a home.

Promoting Local Control and Flexibility—Section 8.—HUD's Housing Choice Voucher program is HUD's largest program at \$16 billion annually. The program provides approximately 2 million low-income families with subsidies that help them obtain decent, safe, sanitary, and affordable homes.

In response to unsustainable cost increases, Congress recently converted the previous "unit-based" allocation system to a "dollar-based" system. This made sense, but for the dollar-based system to work effectively, program requirements need to be simplified, and Public Housing Authorities (PHAs) need to be given greater flexibility.

The State and Local Housing Flexibility Act (SLHFA) introduced last year in both the House and the Senate would, among other things, give PHAs the flexibility to serve more people and better address local needs. If Congress passes SLHFA, local PHAs will be able to design their own tenant rent policies, and, in turn, they can reduce the number of erroneous payments, use their dollars more flexibly, and create incentives to work.

The administration's plan will eliminate many of the complex forms that are currently required to comply with program rules—saving both time and money. Furthermore, the administration's proposal will result in benefits and rewards for a PHA's decision to utilize good management. Enactment of this bill is one of my top priorities this year, and I stand ready to work closely with this committee and the Congress to make that happen.

Making Improvements to Public Housing.—For fiscal year 2007, the Department will continue its efforts to improve public housing by moving toward project-based management, and mandating financial accountability. Project-based management will provide the information on individual properties, allowing managers to compare high and low cost properties and intervene as necessary.

Public Housing's Capital Fund Financing Program.—The Department continues its successful implementation of the Public Housing Capital Fund Financing Program. This program allows PHAs to borrow from banks or issue bonds using future Capital Fund grants as collateral or debt service, subject to annual appropriations. In this way, PHAs are able to leverage the Capital Funds to make improvements. The President's fiscal year 2007 budget request includes \$2.2 billion for the Capital Fund, which will cover the accrual needs of PHAs. The President's budget holds the Operating Subsidy funds level at \$3.6 billion.

Implementation of Harvard Cost Study.—In 1998, Congress directed HUD to undertake the Harvard Cost Study, a review of public housing costs analyzing how PHAs manage their units. The Department will continue its scheduled implementation of the congressionally mandated formula for allocating subsidies for public housing operations, and will implement the formula by fiscal year 2007. The proposed State and Local Housing Flexibility Act would help PHAs' administration of public housing through its flexibility and simplification of tenant rent policies. The implementation will include transitioning the management of public housing to an asset-based model similar to how private sector multifamily housing is managed. Project based accounting is scheduled to be implemented in fiscal year 2007, and asset based management by fiscal year 2011.

Management Accountability of Public Housing.—The Department continues to place great emphasis on the physical condition of public housing properties, and the financial status and management capabilities of PHAs. The Department will continue providing technical assistance to PHAs and rating the effectiveness of PHAs through the Public Housing Assessment System (PHAS). PHAs with consistently failing scores may be subject to an administrative or judicial receivership. The Department will continue to utilize other tools such as Cooperative Endeavor Agree-

ments with local officials, Memoranda of Agreements, and increased oversight, in order to correct long-standing deficiencies with PHAs. Over the past 5 years, the physical condition of public housing units has improved significantly.

America's Affordable Communities Initiative.—Unnecessary, excessive or exclusionary Federal, State, and local regulations severely limit housing affordability by increasing costs as much as 35 percent. They also limit the ability of housing providers to build affordable multifamily housing and perform cost-effective housing rehabilitation. The Department believes that regulatory barrier removal must be an essential component of any national housing strategy to address the needs of low- and moderate-income families, and is committed to working with States and local communities to do so. The Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform" in fiscal year 2003. This has encouraged efforts at the local level to review and reform regulatory barriers and other impediments to expanding housing affordability.

Through the Regulatory Barriers Clearinghouse, the Department maintains and disseminates important information to local governments and housing providers about regulatory barriers and new strategies developed by other communities. All proposed HUD rules, regulations, notices, and mortgagee letters are now carefully reviewed to ensure they enhance rather than restrict housing affordability.

Indian Housing Loan Guarantee Fund.—The U.S. Government holds much of the land in Indian country in trust. Land held in trust for a tribe cannot be mortgaged, and land held in trust for an individual must receive Federal approval before a lien is placed on the property. As a result, Native Americans historically have had limited access to private mortgage capital. The section 184 program addresses this lack of mortgage capital in Indian country by authorizing HUD to guarantee loans made by private lenders to Native Americans. The President's budget proposes \$251 million in section 184 loan guarantees for homeownership in tribal areas, which represents a more than 100 percent increase over fiscal year 2006.

Elderly and Persons with Disabilities.—The fiscal year 2007 budget proposes funding for approximately 3,000 additional housing units for the elderly and persons with disabilities. While still expanding the program, the budget reflects a decrease in the rate of growth from the 2006 level, where over 7,000 new units were funded. This decrease recognizes that there are already a large number of projects in the pipeline. Importantly, however, all expiring rental assistance contracts are being renewed, and amendment funds are available for qualifying increased costs of construction projects already in the pipeline. Funds will also be available to provide supportive services through the Service Coordinator Program and for the conversion of existing elderly housing projects through the Assisted Living Conversion Program. Funds are also available to support the existing Mainstream Voucher Program fully.

HUD has constructed almost 27,000 units specifically for persons with disabilities. Including the funding for fiscal year 2005, HUD has 314 projects in varying stages of development in the construction pipeline.

HUD has constructed almost 400,000 units specifically for the elderly. Including the funding for fiscal year 2005, HUD has 342 projects (about \$1.6 billion) in varying stages of development in the construction pipeline. Moreover, HUD serves an additional 675,000 elderly families under other HUD rental assistance programs such as section 8 and Public Housing.

Housing for Ex-offenders Returning to Society.—Every year, more than 600,000 inmates complete their sentences and are returned to the community. Approximately two-thirds of prisoners are re-arrested within 3 years of their release and nearly half of them return to prison during that same period. Individuals released from prison face significant barriers upon re-entering their communities, such as lack of job skills and housing. To confront this problem, the President proposed a 4-year Prisoner Re-entry Initiative in his 2004 State of the Union address, designed to harness the experience of faith-based and community organizations to help individuals leaving prison make a successful transition to community life and long-term employment. The President's 2007 budget provides a total of \$59 million for the Prisoner Re-entry Initiative, including \$24.8 million in the HUD request for housing needs for this population.

Youthbuild.—The President's 2007 budget again calls for the transfer of the Youthbuild program, which supports competitive grants to train disadvantaged youth, from the HUD to the Department of Labor (DOL), as recommended by the White House Task Force for Disadvantaged Youth. On July 22, 2005, the Secretaries of Labor and HUD jointly transmitted legislation to the Congress to accomplish this transfer. Shifting this program to DOL will promote greater coordination of the program with Job Corps and the other employment and training programs the Department of Labor oversees.

Housing Opportunities for Persons With AIDS (HOPWA).—The HOPWA program provides formula grants to States and localities for housing assistance for low-income persons living with HIV/AIDS. The program helps maintain stable housing arrangements that improve access to health care and other needed support. The program also provides competitive grants to government agencies and nonprofit organizations. In fiscal year 2007, the President is proposing an increase in HOPWA funding to \$300 million, which will support an estimated 28 competitive grants and will provide formula funding to an estimated 124 jurisdictions. These resources will provide housing assistance to an estimated 75,025 households. In addition, the fiscal year 2007 budget request includes a proposal that would allow HUD to change the formula so that the distribution of funds is more equitable because it recognizes housing cost differences across the country.

HOW HUD WILL REFORM COMMUNITY DEVELOPMENT

A key component of HUD's strategic goals is to strengthen communities, ensuring better places to live, work, and raise a family. HUD is committed to producing a better means of measuring the performance of community development efforts, specifically within the Community Development Block Grant program. Allocating these funds more efficiently will help further reinvigorate our communities.

Laying the Groundwork for Reform of CDBG, Focusing Block Grants According to Unmet Needs.—The Community Development Block Grant (CDBG) program serves low- and moderate-income families in cities and urban counties, States, and insular areas across the United States through a variety of housing, community, and economic development activities. The fiscal year 2007 budget proposes to reform the CDBG program to contribute more effectively to local community and economic progress. Formula changes will be proposed to direct more of the program's base funding to communities that cannot meet their own needs; bonus funds will reward communities that demonstrate the greatest progress in expanding opportunity for their residents. Other Federal programs that support local development will operate in coordination with CDBG within a new, broader framework of clear goals, cross-cutting performance indicators, and common standards for awarding of bonus funding and measuring community progress. HUD programs that duplicate the purposes of CDBG—Brownfields Redevelopment, Rural Housing and Economic Development, and section 108 Loan Guarantees—will be consolidated within CDBG as part of this reform. This is another top legislative priority for me, and I look forward to working closely with you to achieve it.

Block Grants for Native American Communities.—The needs of this country's Native American population continue to be addressed through HUD's programs. The fiscal year 2007 budget proposes to increase the funding of the Native American Housing Block Grant program to \$626 million.

Healthy Homes and Lead Hazard Control.—Today, the Department estimates that 26 million fewer homes have lead-based paint compared to 1990 when the program began. Ten years ago, there was no Federal funding for local lead hazard control work in privately owned housing; today, the HUD program is active in over 250 jurisdictions across the country. The President is proposing \$115 million for this program.

Faith-Based and Community Initiative.—HUD continues its successful efforts to increase participation by faith-based and community organizations (FBCOs) in HUD programs. Due to a variety of efforts, more faith-based and other community organizations are extending their reach when helping society's most vulnerable citizens. The Center continues to provide outreach and technical assistance to FBCOs, through its grant writing workshops, its Unlocking Doors Affordable Housing initiative, and other outreach efforts. I am proud to report that the Center's outreach and technical assistance efforts have helped all groups compete on a level playing field for HUD assistance, regardless of whether they are faith-based or secular. According to the White House's 2004 data collection numbers, faith-based organizations have successfully competed for and won 23.3 percent of eligible HUD funding—a higher percentage than in any other department of the Federal Government.

HOW HUD WILL COMBAT HOMELESSNESS

In addition to pursuing other agency goals, HUD remains committed to the goal of ending chronic homelessness. The chronically homeless live in shelters or on the streets for long periods, often suffering from mental illness or substance abuse problems, and absorb a disproportionately large amount of social and medical services and expenditures. The fiscal year 2007 budget proposal includes an increase to \$1.5 billion from \$1.3 billion in 2006 for Homeless Assistance. This increase supports the administration's long-term goal of ending chronic homelessness by dedicating up to

\$200 million for the Samaritan Initiative that bolsters communities' efforts to produce supportive housing for the chronically homeless. Through the Continuum of Care grant competition, HUD has aggressively pursued policies to move all homeless families and individuals into permanent housing. This overall funding level in 2007 will house 160,000 individuals and families through this program.

This year, in addition, I am pleased to chair the U.S. Interagency Council on Homelessness, where the Federal agencies are working together toward this goal.

The administration again proposes to consolidate HUD's three Homeless Assistance Grants programs into one simplified program that will give local communities greater control to direct these funds to their priority needs.

HOW HUD WILL CONTINUE TO FIGHT HOUSING DISCRIMINATION

The Bush Administration is committed to vigorous enforcement of fair housing laws, in order to ensure that equal access to housing is available to every American. Fair housing enforcement activities are pivotal in achieving the administration's goal to increase minority homeownership by 5.5 million by 2010. For 2007, the President's budget proposes approximately \$45 million to support Fair Housing and Equal Opportunity activities to help ensure that Americans have equal access to housing of their choice. These activities include education and outreach, as well as administrative and enforcement efforts by State and local agencies and nonprofit fair housing organizations. Additionally, the requested amount would support the Department's ongoing efforts to address fair housing concerns in areas affected by Hurricanes Katrina and Rita. The efforts would include bilingual public service announcements, printed advertisements, and training events. The Department would provide technical assistance to builders, architects, and housing providers on accessibility requirements through Accessibility FIRST to ensure that newly constructed housing units are accessible to persons with disabilities.

HOW HUD WILL INCREASE ITS OPERATIONAL EFFICIENCY

HUD made significant strides in financial management this year. We are particularly proud of our achievements in:

Financial Performance.—Successfully accelerating the close of our operational books and audit of our financial records within 45 days of the end of the fiscal year, HUD earned an unqualified audit opinion on its 2004 and 2005 financial statements, giving the Department an unqualified or clean audit opinion on its financial statements for the past 6 consecutive fiscal years. The financial auditors also determined that HUD made significant progress in strengthening internal controls. The auditor downgraded two long-standing material weaknesses—one dating from 1990.

Continuing progress on the implementation of the final phases of the FHA Subsidiary Ledger Project contributed to HUD's ability to accelerate the preparation of auditable financial statements, and eliminate longstanding material internal control and financial systems weaknesses. HUD will complete the FHA Subsidiary Ledger Project in fiscal year 2007 and continue to pursue its goal for modernizing the Department's core financial system by fiscal year 2008, through the HUD Integrated Financial Management Improvement Project.

Electronic Government.—HUD continues its E-Government transformation in order to meet public expectations and government performance mandates by: increasing access to information and services using the Internet; eliminating duplicative and redundant systems by leveraging and integrating with existing Federal-wide services; acquiring or developing systems within expected costs and schedules that can be shared and used to simplify business processes; ensuring the protection of personal data; and providing increased security to guard against intrusion and improve reliability. HUD has executed plans to improve its information technology capital planning, project management, and security environment, along with modernizing HUD's IT systems infrastructure. HUD's future focus will be on modernizing its core financial systems applications and business systems applications in its largest program areas—rental housing assistance, single-family housing mortgage insurance, and discretionary grants, as well as establishing integration from our procurement data system to the Federal Procurement Data System (FPDS). In 2005, HUD successfully implemented two new systems: (1) a Human Capital support system and (2) a cross-match system with HHS to assist PHAs in verifying tenant incomes to assure eligibility for the program and accuracy in computing tenant rent contributions.

Eliminating Improper Payments.—HUD has reduced its gross annual improper rental assistance payments by 61 percent since 2000. In 2003, improper payments were reduced to \$1.6 billion from the 2000 level of \$3.2 billion. In 2004, improper payments were further reduced to \$1.25 billion. In October 2005, HUD provided

local PHAs with an electronic tool to verify tenants' income with the Department of Health and Human Services' National Directory of New Hires. This new tool will further improve the accuracy of eligibility determination for the rental assistance program and the proper calculation of the tenant's portion of the rent and the amount of Federal subsidy to be allocated. While the estimated improper rental housing assistance payments in fiscal year 2004 were substantially reduced from prior year estimates, they still represented 5.6 percent of total program payments. Through continuous corrective actions, HUD's goal is to reduce that improper payment rate to 3 percent of total payments during fiscal year 2007.

In conclusion, Mr. Chairman, the President's proposed fiscal year 2007 budget makes good progress toward successfully realigning Federal Government priorities according to our Nation's current needs. The HUD portion of that budget will help promote economic and community development through increased opportunities for homeownership and affordable rental housing, free from discrimination; it will also lay the groundwork for reform by focusing community development funding more carefully toward those most in need; and it will enable HUD to continue along the path to greater Departmental efficiency and effectiveness.

I thank you for the opportunity to articulate the President's fiscal year 2007 agenda for HUD. This is a good budget, Mr. Chairman, and I respectfully urge the Congress to adopt it. I am now available to answer any questions that you or other Senators may have.

Senator BOND. Thank you very much, Mr. Secretary, and as I said, we have a lot of questions. We have touched on some of them.

The PHA formula funding is flat-funded, but the estimates currently project that HUD's operating budget proposal will fund these agencies at about 80 percent of their eligibility under the formula for 2007. How can you expect agencies to operate safe and decent housing when they receive 80 cents on each dollar they expect from the Federal Government? And what kind of shortfalls is this liable to produce?

Secretary JACKSON. Mr. Chairman, that is a fair question. I think if we can pass the reforms that we have asked, that will be increased. But if we keep it at the present state that we have, you are correct. I think that the agreement that we have had with the industry is the best approach to go to asset management; that is, we have a lot of public housing authorities today that have assets that are underused, and in many cases not used at all. If we go to total asset management and those units are not used, you are paying only for the used units. Today, I think it is very important that we look at it in that manner. We have not been looking at it that way. And that was one of the reasons when we were doing the negotiation and I talked to many of the people in the industry and they were unsatisfied, I told our staff to go back to the table and try to address the needs that had been denoted to us by the people in the industry.

And I think having come out of the industry for a period of time, I am very sensitive to their needs, and I think that clearly if the reforms are passed and adopted, we will have substantial monies to cover the program. If not, then, yes, we will have a shortfall.

Senator BOND. Well, as I understand, during the negotiated rule-making the Department acknowledged that implementing the rule would require an additional \$250 million in funding, and since then, the implementation of the rule seems to have become increasingly complex and costly. You know, granted, there needs to be a new system, but how can we expect a reasonable and ordered implementation of the rule as we move to asset-based management when there is a cut and in the face of the transition costs which have been acknowledged by HUD?

Secretary JACKSON. We have acknowledged there is a concern, and, again, speaking with the industry, I sent our staff back to the table to make the transition as smooth as possible so that we would not have this kind of effect that you have just said.

We felt that we had come to an agreement, and I still think we have come to an agreement, by delaying some implementation by some housing authorities and letting others start implementation when we set the program to start.

I believe we have addressed the issues that the industry wanted to—said was very significant, and I am a little perplexed in talking to some of my industry colleagues when they say that we have not, because I specifically said to the staff, “Get in the room and resolve this”, because I, too, felt deeply that that specific issue had to be addressed.

ASSET-BASED MANAGEMENT

Senator BOND. Well, there is another issue that just strikes me as being a real problem. HUD is behind schedule, I gather, in developing the criteria for asset-based management, and when October 1 rolls around, PHAs scheduled to lose subsidies will not be able to use the stop-loss provisions of the rule, which would limit their loss to 5 percent, if they comply with the asset management requirements. I understand that HUD has indicated that the criteria should be completed by mid-2007, and PHAs in compliance will have their funding restored retroactively according to stop-loss rules.

But how do you do that? How do you plan for a year when you are going to get a shortfall and you are going to be shorted at the front, and you do not know what you are going to—if you are going to come out a winner in the end? It seems to me that by saying, hey, you start operating on October 1, and maybe by March 1 we will tell you how much money you are going to get, as a former chief executive of a small operation, I would have found that extremely difficult to handle.

Secretary JACKSON. I think your assessment under normal circumstances is correct, but one of the things that I think is very important is I asked the industry—because I have tried to be extremely open and accessible to the industry if that was acceptable. They said to date it was acceptable. That is why we extended the ability for the stop-loss gap to go into effect.

Now, if it is not, then I am a little baffled and surprised, and I would suggest that as chairman, you and I sit with the industry because I would not have made—I would not have gone forward with this unless clearly the industry had accepted this.

Senator BOND. I think maybe your team selects some, and our guys and gals will select some, and maybe we will have everybody sit in the same room so that they tell you the same things they are telling us, because somebody is getting the wrong story.

Secretary JACKSON. I think you are correct, Mr. Chairman. And I am a little baffled.

Senator BOND. I think this one is—

Secretary JACKSON. You know, I think—

Senator BOND. They are telling you one thing and us another. I would like to find out where the truth lies.

Secretary JACKSON. I have asked the staff to go back and make tremendous concessions, because I believe that when we did the meetings for the operation perspective, that the industry operated in good faith and down the road somewhere we stopped operating in good faith, and I sent them back to the table.

Now, I feel that—I have personally talked to the major entities in the industry, and I thought we had resolved this, and I do not question you because I have a great deal of respect—

Senator BOND. Well, it is not a question—I am not questioning what you are telling me or what my staff is telling me. But we are getting two very different signals.

Secretary JACKSON. I agree.

Senator BOND. So we need to get together and have the group that we are trying to serve tell both you and us what the truth is.

Secretary JACKSON. I would be happy to do that, sir.

BLOCK GRANT VOUCHERS

Senator BOND. Vouchering the block grant, as I said, I have got a minimum amount of high enthusiasm for that proposal. Maybe it could work if there is an adequate commitment of future funding and if it included special protections for extremely low-income families. But there is no guarantee of it.

I would be interested in why the Department does not include the current law requirement that 75 percent of the vouchers go to extremely low-income families at or below 30 percent of area median income. And what is your response to the claim that there would be more homeless families without this requirement?

Secretary JACKSON. Again, I think that is a fair question. I think we do adhere to that 75 percent of the vouchers should go to, at this point as the present law is written, the households below 30 percent or less of area median income. I don't think, Mr. Chairman, that in the present state of the program we can change the quality of making sure that more people have accessibility to the voucher. The extended time that people stay on that voucher has been increased tremendously since 1998. Before that, it was nearly 3 years. Today it is about 8 years. So we do not have the turnover that we had before.

I truly believe that if we give the authority to the housing authority in a block grant, as we did before 1998—we did not have unit-based costs before 1998. They gave us an allocation. And I can tell you both in St. Louis, both in the District of Columbia, and both in Dallas, I dealt with allocations and I was able to house more people at a quicker rate than we are doing today.

To me, there are no incentives for a housing authority to ask people or to help people get off section 8, because they are going to get their administrative costs regardless of what they do, whether they lease up or do not lease up those units.

So I believe that if we go back to where we were before 1998, we will see aggressive housing authorities moving, serving more people, and the voucher will turn over much quicker. And, you know, again, you know, I hear the argument that is being made by housing authorities. But I am just sorry, Mr. Chairman and ranking member, I do not buy the argument. I ran three housing authorities, and I know what it takes. And the three housing authorities

I ran all did very well, as you know, in St. Louis, and we served a lot of people. But I think we should give housing authorities incentives to serve more people and turn the vouchers over much quicker than what they are doing. And at this stage, they have no incentives to do that, and that is why the lines for section 8 vouchers are longer and longer and longer, and getting longer. And I don't know whether we are creating more homeless people, but I can tell you that the lines are getting longer.

Senator BOND. Senator Murray.

CDBG CUTS

Senator MURRAY. Mr. Secretary, I read through your formal opening statement, and reading that statement, you would never know that you are proposing a cut to CDBG of \$1.15 billion or about 27 percent. What your statement says is "Allocating these funds more efficiently will help further reinvigorate our communities." Can you tell us how cutting available resources by \$1.15 billion next year helps reinvigorate our communities?

Secretary JACKSON. Senator Murray, I perceive us cutting about \$635 million out of the block grant program as it stands today, not \$1.2 billion. I do believe this, that the block grant program has served a very vital purpose. That is why I was such a great advocate of it. But I am also convinced that you have very wealthy communities that have pockets of poverty that they should be taking care of. When I look at the block grant program, I think we should zero in on those communities that have been in distressed conditions, that really need our help, both economically, housing, infrastructure-wise, and gear our money toward those persons to help them move forward. And if they are moving forward, continue to help them until they come to the level that they do not need our help.

That has not been the case with the Community Development Block Grant Program, and I must admit that.

Now, to say that it has not done good in many places, I could not say that because that would be very hypocritical because I am a great proponent of it and I served as chairman of two community development agencies, but I do think the money can be zeroed in, and if the reforms are adopted, I think we have substantial money to address the needs of those communities most in need.

Senator MURRAY. I am in my 14th year here in the Senate, and I can say that I know of very few programs that have as much broad-based support as CDBG. It is supported by Members of Congress, by Governors, mayors, county supervisors, community development organizations, everywhere I go, and it is consistently supported by Democrats and Republicans alike because they go home and they hear how these funds are being used, and they know that it makes an incredible difference in their community. It seems to me like the only group that appears to be openly hostile to the CDBG Program is the Bush administration.

Last year the proposal was to combine the program with other programs and cut it by more than one-third, and this year you want to cut it by \$1.15 billion. I just want to know how the administration came to the conclusion that this program is broken and it needs to be fixed.

Secretary JACKSON. Let me say this to you. I do not think that we are hostile toward it, and I can specifically tell you that I am not. I have seen the program work, so I cannot debate about it not working—

Senator MURRAY. What is broken about it?

Secretary JACKSON. The point is, is I do not think it zeros in or zooms in on those communities most in need or those cities most in need, and I think that if we began to do that, not pockets of poverty in Palm Springs, but places like Akron, Ohio that really needs tremendous infusion of funds. I think we should clearly specify where the money should go and what is needed, and we have not done that. I think that that is a serious problem, we have not. I mean there are areas in Dallas, where I was born and raised, that receive block grant funds that should not, but if you take specific areas in St. Louis where you have almost a total community that has suffered tremendously, I think we should gear the money where it is needed.

Senator MURRAY. Okay. But right now your own budget documents say that as the program exists today, 95 percent of CDBG entitlement funds and 97 percent of State grantee funds went to benefit, today, low- and moderate-income individuals. So if every dollar of this program is already providing benefits to targeted communities, why is the administration saying we need to target it even more?

Secretary JACKSON. Again, I am not going to disagree with you, but let me say this to you. Take Dallas as an example, where I am from. Their block grant monies, a great deal is spent on housing inspection. That is a worthless waste of time of Community Development block grant money. That is what it is. But if you ask Dallas, they are going to say that they are doing that in low- and moderate-income areas, which they are, but that is a function of city government, and they should be doing it themselves. They should be using the block grant funds, if they are going to use them wisely, for the infrastructure and rebuilding of that city.

Senator MURRAY. Here in Washington, DC, are we going to look at every community and decide ourselves here, or yourself in your program, who is using the money wisely, and start doing earmarks?

Secretary JACKSON. No, that is not what I am saying, but I am saying to you that we have communities that are wealthy that can address many of these needs, and they have not been addressing these needs.

Senator MURRAY. I do not know Dallas. I did not know it was wealthy. But in your proposal, you say, so-called affluent communities are going to be eliminated. How are you going to define affluent communities? We have Bellview, that some people may say is affluent, but let me tell you, there is a growing large number of low-income people in Bellview, and they use those funds for low-income people even though Bellview may be, I do not know, within the Nation, an affluent community. I do not think so, but how are you going to define this?

Secretary JACKSON. Well, if you want to use Bellview, that is a very good example.

Senator MURRAY. It is not a good example.

Secretary JACKSON. I am very aware of it. They use a larger portion of their funds for housing inspection. They should be doing that. That should not be a function. If we are going to deal with it, we should look at the areas of the highest area of poverty to address needs.

Senator MURRAY. So are you saying CDBG funds should not be used for housing inspections?

Secretary JACKSON. Really, I do not think it should. If it should, it should come out of the administrative costs of that city. See, I think we have gotten so used to us not really addressing the needs of Community Development Block Grant funds as to what they were initially set out to do, that we think that it is okay to continue to do this. I am not saying that a portion of it should not be used, or should not come out of the administrative costs.

Senator MURRAY. How are you going to define affluent communities?

Secretary JACKSON. I think when you get our proposal that we are submitting to you, to reorganize and to look at how we can best serve communities. I think we can define affluent communities. I think Palm Beach is an affluent community. I think that, clearly, several communities that I could name are affluent. I think Bellview is affluent.

Senator MURRAY. So you are basically going to say at the Federal level, we are going to define what affluent communities are, and none of them will get any CDBG funds; is that right?

Secretary JACKSON. No, that is not what I am saying, but I think we should look at it very hard and see how we address it proportionally or whether they should receive it.

Senator MURRAY. When will we get your proposal?

Secretary JACKSON. You will have our formula within the week of what we are setting forth.

Senator MURRAY. Well, it will be very fascinating to see how you define affluent.

Secretary JACKSON. I will tell you this, I clearly believe we can define it without a doubt, and I think the formula will address that.

Senator MURRAY. Communities like Bellview have a dramatically growing number of low-income people. They are the people who work in the hotels. They are even the people who teach in our schools, and their housing needs are incredibly difficult because they live in a community where housing is even more expensive than other communities. So I see CDBG funds being incredibly important to what you may well define to us as affluent.

Secretary JACKSON. And I would say to you, I do not disagree with you on what you just said, but if the monies were going to the housing needs, that would be a different perspective. I think I would ask you to go back and look at how Bellview has been spending their money, because one of the things I did before I got here is I did look at it, and a lot of it is being spent in areas that I think you would ask them to relook at that and go spend it for just what you said.

Senator MURRAY. We will see how you define affluent and what happens with that.

Secretary JACKSON. Okay.

Mr. Chairman, Thank you very much.

Senator BOND. Thank you very much, Senator Murray.

We are very pleased to be joined by additional members of the subcommittee, and sorry you missed out on our initial very thoughtful discussions that Senator Murray and I offered.

But now we are happy to hear your questions, beginning with Senator Leahy.

STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman. We were here prior, but we also have a massive immigration bill before Judiciary, and that is where I was.

Secretary Jackson, it is good to see you again.

Secretary JACKSON. Good seeing you, Senator.

Senator LEAHY. Welcome you to your second appearance before our subcommittee. I know that Senator Bond and Senator Murray, who do a superb job in leading this committee—I will repeat that for Senator Bond.

Senator Bond and Senator Murray, you do a superb job in leading this subcommittee.

Senator BOND. Thank you very much.

Senator LEAHY. I am concerned though about the budget, and I understand what you said to Senator Murray, but I look at cuts in affordable housing by cutting funds for public housing, weakening of the section 8 program, the President slashed funding for—I believe that CDBG is extremely helpful.

Secretary JACKSON. I agree.

Senator LEAHY. I have watched how it has been used in my State, and I see these cuts. Whether you are for or against the war in Iraq, we just get asked for billions and billions and billions of dollars more all the time to rebuild parts of Iraq, to do everything from providing for the National Guard of Iraq, while we cut money for the National Guard of the United States; for housing for Iraq, we cut it here. I believe a strong America begins at home, and that has nothing to do with whether you are for or against the war in Iraq, but if we are going to be providing for these things in Iraq, we ought to start providing for them in the United States.

Fortunately, the attempts to pay for the war in Iraq out of our domestic programs is not a wise one to do. If the war is that great an idea, then pass a tax to support it. We did this with World War II. We did it in Korea. We have always done it. Now, I think this puts a real burden on ordinary people. In my home State of Vermont, Vermonters are finding it harder and harder to find basically affordable housing. It is going to become increasingly difficult for our teachers and our police officers and our fire and rescue workers even to afford places to live in the communities they serve. We are going to see homeless families in Vermont grow.

PREPARED STATEMENT

Last weekend it was 10 degrees below zero in Vermont, not unusual this time of year. I have been in my home in Vermont when I could not tell exactly what the temperature was because the thermometer on the front porch only goes to 25 below zero. I live in a comfortable house. Many Vermonters do not. That does not be-

come a matter of discomfort, that becomes a matter of life or death. I will submit a full statement for the record, if I might, Mr. Chairman.

Senator BOND. Without objection.
[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

I welcome Secretary Jackson to this hearing of the subcommittee. We have much to discuss, as the President has sent a budget to Congress that ratchets down affordable housing among our budget priorities, and that would increase, not lessen, the burden put on the shoulders of our Nation's struggling low-income families. I must say that I wish it could start on a more positive note. Unfortunately the President's proposed budget for the important work of your Department is one that again invites disappointment and even incredulity, not praise.

For an unprecedented sixth year in a row, the Bush Administration has decided that affordable housing is not a national priority. The President's budget proposal says to ordinary Americans families struggling to make ends meet and needing help in affording basic housing, "Sorry, but putting a roof over your head is no longer our concern." That attitude is short-sighted, has real consequences in real communities for real people and is anything but compassionate.

At a time when Federal leadership is needed more than ever before, the Bush Administration is running in the other direction. The President has sent a budget to Congress that would hurt affordable housing programs by cutting funds for public housing and weakening the section 8 program, and he would slash funding for one of the most successful initiatives that supports economic development and affordable housing, the Community Development Block Grant (CDBG) Program.

After squandering record surpluses and converting them overnight into a record national debt through irresponsible tax and spending policies, the White House's solution is to slash funds for affordable housing programs that help hard-working Americans and their families who are stuck in a financial cul de sac, as the gap between housing costs and wages continues to widen. At the same time, the White House calls for more massive tax cuts for the wealthiest individuals and corporations. Our children and grandchildren, who cannot possibly afford such irresponsibility, will reap the true legacy of the Bush Administration's abysmal fiscal management.

In my home State, Vermonters are finding it harder and harder to find basic, affordable housing. If we fail to address this problem head on, it will become increasingly difficult for our teachers, police officers and fire and rescue workers to afford places to live in the communities where we need them. We will continue to see the ranks of homeless families in Vermont grow. This is not a problem unique to Vermont.

The budget before us signals a substantial retreat in our commitment to help provide access to safe and affordable housing for all Americans. The public housing capital fund is cut by 11 percent and the operating fund is level-funded despite the need for additional funding for the operation of public housing under the new asset-based management system, funds for housing for persons with disabilities have been cut in half, HOME formula grants have been reduced, the housing for the elderly program has been slashed, and both fair housing programs and lead-based paint grants have been cut.

Most egregious is the administration's proposal to cut the CDBG program by \$736 million, leaving funding at its lowest level since 1990. This program provides critical source of funding for affordable housing, supportive services, public improvements, and community and economic development. If the President's proposed cuts to CDBG are enacted in fiscal year 2007, then an estimated 97 percent of the more than 1,000 communities that have held entitlement status since fiscal year 2004—which was the highest level of funding for CDBG under this administration—or earlier and every State program would have their CDBG allocation slashed by at least one-third.

One of the few programs to see an increase in this budget proposal is the section 8 Housing Vouchers program, and even that increase will not be enough to restore the cuts that were made to this year as a result of inadequate funding in fiscal year 2005.

I hope to hear from you today about the vision you have for the Department of Housing and Urban Development and how you expect to run efficient and effective programs like these, when they are slowly being starved to death.

Senator LEAHY. To go back to what Senator Murray was saying on CDBG, slashing by \$736 million, that is the lowest level since 1990. The National Low-Income Housing Coalition estimates these cuts are in there, then 97 percent of the more than 1,000 communities that have held entitlement status will find it slashed by at least one-third. You have been asked questions about that. I will not keep going on that. But we see CDBG, proposed consolidation of Brownfields redevelopment grants, rural housing, economic development, and section 108 loan guarantees. If you are going to consolidate all of those programs, how are you going to do more with less? Is there some magic or are we using the same rosy assumptions we are in Iraq?

Secretary JACKSON. Well, first of all, I would not agree that it is a rosy assumption in Iraq. I believe our President——

Senator LEAHY. I have heard the administration say we would be welcomed as liberators. I have seen signs “mission accomplished,” and I heard, “Bring it on,” and I heard that this is just a momentary blip in the road as the country is spiraling, apparently, into civil war. But this is not the committee of Defense Appropriations or Foreign Operations. I am just worried that we sometimes make these projects, and they do not work very well.

Secretary JACKSON. To answer your question, Senator, if I did not think that this could work, I would not be here defending it. I think before you came in I said to Senator Murray I have the real dubious distinction of being the only HUD Secretary to run a housing authority, and to be chairman of two community development agencies. And my perspective is, is that——

Senator LEAHY. That is one of the reasons we welcome you, because of your experience.

Secretary JACKSON. Thank you, sir. My perspective is that if we implement the revised formula, which I think is very important—and I have said this almost from day one when I was Deputy Secretary—to look at how best to distribute the money to those communities most in need, and not as we have over the last 30 years. I think that when Senator Murray asked me or made a statement about the success of the program, there are so many successes. I cannot even debate that. But I think we can distribute the money much better to address those communities in 2005 that most need it, and not communities that have used it for programs that are not necessary to address the needs of what the block grant program was, from the inception, believed to accomplish.

And I say that again, yes, there is a cut, but I believe that clearly the monies that we have, if we adopt a formula that we are going to submit to you, will address the needs of what we think is very important in the block grant.

Now, if it is not adopted, I think you are absolutely correct, but I do believe that we can do a lot more with not as much money this time.

Senator LEAHY. My time is up, but I see this case every year. There are all these different holes in the budget. This subcommittee is faced with the unenviable task here for every mayor, every Governor, and just by every other group saying, “Can you put the money back in?” Again, we have worked in a very bipartisan way here, but it is somewhat difficult. We will have a further con-

versation. My time is up, but I will submit questions for the record, and maybe you and I might chat later on.

Secretary JACKSON. Yes, sir, thank you.

Senator LEAHY. Thank you, Secretary.

Senator BOND. Thank you very much for your comments and for your sympathy, Senator Leahy. This is a tough year, and we will all have a lot of work to do.

Senator Kohl.

Senator KOHL. Thank you very much, Mr. Chairman.

Secretary Jackson, just to plow this ground a little deeper, and once again, about section 202. The program, as you know, provides funding for local nonprofit agencies to construct and manage housing for low-income seniors. This section 202 program creates, as you know, safe and affordable communities where senior residents have access to the services that allow them to live independently, with the number of individuals over the age of 65 expected to double, as you know, in the next 24 years. How do you explain in a way that makes people understand and accept a proposal by the administration to cut funding for this program?

Secretary JACKSON. To date, Senator, we have decreased the program by \$307 million, but it is fully funded for the existing contracts that exist today, fully funded. In 2006 we funded 7,000 units of 202 and 811, and in 2007 we are funding an additional 3,000 units. So clearly, from my perspective, if the money is spent in an expeditious manner, I have no problems at all going back, saying we need more money. The program has been slow starting, and in fact, we geared the program up, since we have come in 2001, to get the backlogs of 202s, 811 that was in the backlog, and we have almost cleared it up, but not quite. And if the money continues to be funded, I think it is—I will be happy to go back and ask. I am not against 202's, 811, but I think the money must be expended very quickly.

HOPE VI

That is my argument even with my good friend, the chairman, about the HOPE VI. To date we still have about \$3.2 billion outstanding over 10 years in HOPE VI that has not been spent, and I do not think we should continue to fund the program unless clearly the money is spent expeditiously and wisely. To date, out of 200 allocations of HOPE VI, a little over 200, we have only had about 35 completed. That was the same situation we faced when we came in to 202. So it is not, again, that I do not think it is worthy. I think we have to look at the program and see whether it is being utilized in the best manner. If we do that, then, yes, I am the person that will defend it until the end and go ask for money.

CDBG

Senator KOHL. Well, we will see. CDBGs, Mr. Secretary, as you know, provide important funding to States, counties, cities and local communities for a range of projects such as housing, supportive services for seniors and disabled, improvements in public facilities, and so on. In my State, Wisconsin, the program has funded housing projects for elderly, homeless and single family housing, for low-income first-time homeowners, and a host of other projects.

It is a sort of decentralized, locally controlled program that this administration has supported. So, again, why does the budget target this program for such a significant cut? And is it going to be distributed in such a way so that communities such as Wisconsin will not be cut? Is that what you suggested earlier?

Secretary JACKSON. What I suggested is, is that we put in place a revised formula that we are going to submit to you all for you to act upon. I think that we are going to look at all of the recipients of block grant programs, look at the community as a whole, not necessarily piecemeal, and that is what I said to Senator Murray. You have very rich communities that have pockets of poverty, but clearly, those communities can address that pocket of poverty, where we could best use the monies that we have and been allocated, to address those cities of total communities that need it.

I am one, Senator Kohl, that believes block grant works. I have seen too many great projects that have been very well carried out, but I have also seen cities utilize money—and this is not something I have just said today—I have seen cities over the years utilize monies for things I did not think they should be utilizing the money for. One of the biggest problems, when I chaired the redevelopment authority here in the District, I had great fights with the council people because they had their pet projects, and I said, really, that should not be the case. We should zero in on the low- and moderate-income community, those with the most poverty, those which have the potential of developing economic development in conjunction with housing. And so I do believe that the program is valuable and worthwhile. I just think we have to redirect our energy and specifically say how this program should be used.

Senator KOHL. In doing so, cut the budget for the program. I mean, we must—

Secretary JACKSON. No, and a revised formula. Yes, the budget has been cut.

Senator KOHL. I mean, at one end you say it is a great program and you support it, you endorse it, you think it is good. On the other hand, the budget has a cut for the program and there is something there that does not connect. If you, for example, take the position, as most of us do, that there is so much that needs to be done in our country, so much, with programs like this, how you can support at the same time cutting the program is, as you can understand, to some of us hard to understand.

Secretary JACKSON. Sure.

BROWNFIELDS

Senator KOHL. But before my time runs out, just on Brownfields, obviously, the program, Brownfields, promotes economic development in abandoned and under-used industrial commercial facilities, as you know. It is a program that is good for the environment, good for business, and good for economic development. A number of communities in my State, including a neighborhood development initiative in Beloit, Wisconsin, have benefited from the Brownfield funding. So, can you explain why the President would propose eliminating, eliminating funding for the Brownfield redevelopment programs?

Secretary JACKSON. We have not cut it. We have consolidated the program. I think in consolidating the program, it goes back again to what I have said to the others. I think we must zero in on those communities, Senator Kohl, that most need the money. And if Beloit is one of those communities—that is one I cannot comment on—then, yes, we would zero in on that community. The question we would ask when we zeroed in on this community: “When we go in with the Community Development Block Grant Program, what effect is this going to have on the community? Has this community been devastated because of loss of jobs over a period of time? Will this invigorate the economic development, the housing development within that community?”

If it does, then it is our responsibility to go in and help Beloit become a better community. But it is not our responsibility to go into Palm Beach and help Palm Beach get richer, even though you might have pockets of poverty in Palm Beach.

Senator KOHL. Are you saying that the Brownfield program will not be eliminated in Beloit?

Secretary JACKSON. It will be part of—it is consolidated into the Community Development Block Grant Program.

Senator KOHL. Our fear, of course, as you know, is that this consolidation will result in less or no money for something like brownfields. As you know, that is what those of us on the other side of the issue are arguing, and very fearful will occur. Tell us that we are wrong.

Secretary JACKSON. Well, I can tell you as the Secretary that is not my intention when we talk about consolidation. My intention is to take a picture of what is needed in a community to bring that community to where it should be after devastation has occurred, whether industry has left, whether that has happened. I do believe that it is important to look at the community as a whole, and as I said to Senator Murray a few minutes ago, yes, there are cuts, but I am well aware of monies from block grants that have not been used for what I think they should be used for. I know people will disagree and say, “That is what you think,” and it is what I think.

I think that cities have totally taken—as my city, Dallas, I use all the time—just totally taken every housing inspector in the city off the payroll and put them on CDBG. I think that is the function of the city of Dallas. And I always want to use the city because that is the safest city for me to use, since it is Dallas. But I do not think it should be used for that.

I think it should be used for infrastructure to address issues, as the Senator just said, for rebuilding house infrastructure for low- and moderate-income people, such as fire people, police people, nurses, teachers, who find it very difficult today to be able to afford a home in this country. That is why I think we should juxtapose CDBG funds with HOME funds, with Shop funds, and help people who most need it, and in many cases that has not been the case. It has been a supplement for cities to do things that they should be required to do themselves.

Senator KOHL. Thank you so much.

Mr. Chairman, thank you.

Senator BOND. Thank you very much, Senator Kohl.

HOPE VI

Mr. Secretary, since you wanted to talk about HOPE VI, I thought that we might talk a little bit about it, because you know how complex it is. You know how long it takes these deals to get done. Very difficult for the local governments to put all the plans together, and, frankly, from what I hear, HUD has not been as helpful as it could and should be, doing something that is absolutely the most important thing we can do, and that is to turn obsolete, unsafe, unsound, housing, which has been a festering place for crime and drugs and not good places for families, and turn them into viable communities.

Now, I can show—and I know you have seen what is going on in St. Louis, Murphy Park instead of Vaughn, the King Louis operations. This has truly revolutionized downtown St. Louis.

Secretary JACKSON. That is true.

Senator BOND. And I understand Atlanta, and Louisville, and even Chicago, which had had some very real programs, is being reborn with the money that goes into the HOPE VI operation. I am not going to be like Jim Cramer on Mad Money and tout my book, but I hope that you have read the San Francisco Chronicle article on HOPE VI, which said that it was one of the very few revolutionary programs that is making a difference in housing. And if you wanted to change it, if we want to, first of all, improve the management, administration of it, but when you are saying, well, all these needs are going to be handled through the Public Housing Capital Fund, and at the same time more than a 10 percent decrease in that, you take that into account with the proposal to eliminate HOPE VI, it seems to me that this budget turns its back on the need to help cities provide the infrastructure that is needed in many instances to clean out unsafe, unlivable housing projects into decent places for families to live.

I am just very much troubled by what the budget does to the Public Housing Capital Fund, and to HOPE VI.

Secretary JACKSON. Mr. Chairman, let me say this to you. Since 1991, when we first implemented the first HOPE VI after the recommendation of the National Committee on Severely Distressed Public Housing, which I served on, and you, and Jack Kemp were very instrumental in making sure that HOPE VI was put into law, we have demolished almost 120,000 units today around this country. So the same capital fund that was needed then is clearly not needed today. And I think, clearly, we should not have the same amount of money.

Secondly, I cannot ever question St. Louis. St. Louis has been very, very unique in a sense—so has Atlanta—because in their HOPE VI they have had developers who would leverage the money. That was the basis of the program in the first place, is to find a developer who would take the allocation from the Government, leverage it and create a community that was both socially and economically integrated.

Now, have we seen that in St. Louis with developers? I will not call any names, but it has been successful. Have we seen that in Atlanta? It has been successful. Have we seen that in Charlotte? It has been successful. Have we seen it in Dallas? It has been suc-

cessful. But those are only some examples of the 35 of over 200 applications that were funded, that were done, and done in a timely manner.

Now, if you look in the last 3 years that we have been here, we went back to the original language of the HOPE VI, where we suggested that you have a developer come in who could leverage the money that we give you. That is working, but we still have this money in the pipeline.

Now, I would be the first to say if we are recapturing part of this \$3 billion, I would say, yes, let's find some way to reallocate it to other HOPE VIs in the country, but right now, the money is standing still. And we just began, after 15 or so years in New Orleans, to get those HOPE VI off the ground. So I am saying to you, I am not saying the program in certain areas has not worked, but clearly it has not been the program that you thought about or Secretary Kemp thought about, or we thought about on the National Commission.

Senator BOND. I think we suggested recapturing some of that money, some of the unused HOPE VI money, but we understood that HUD opposed it because they did not want to be in the position of recapturing it.

Secretary JACKSON. No, no, Senator—

Senator BOND. If there are some areas where it is not being used, and other areas where it is needed, I think we ought to work together to recapture that. But you put your finger on one critical point for HOPE VI to work, there has to be a community with a developer with leverage that is going to come in and make this a truly mixed income, viable community.

Secretary JACKSON. If you recapture the money and tell us what to do with it, I will do it.

PUBLIC HOUSING CAPITAL FUND

Senator BOND. Well, we have about \$20 billion in public housing capital backlogs, and the budgets that have been presented by OMB do not come anywhere near meeting those. We need to get money into the Public Housing Capital Fund, and you and we need to be clear that if you are going to have HOPE VI, you need to come in with a plan, and with a developer, with the financing, with this community support, and then HUD needs to streamline its act—

Secretary JACKSON. Absolutely.

Senator Bond [continuing]. So these people can make it work. There are needs around the country for the HOPE VI funding, and if some day when you say that they are all done, I will be happy to check, and I will bet we can find some more where it is needed.

Anyhow, I took up a lot more time than I meant. Sorry.

Senator Murray.

Senator MURRAY. Thank you, Mr. Chairman.

PUBLIC HOUSING CAPITAL FUND CUTS

Mr. Secretary, following up on that, in your formal opening statement you said the Department continues to place great emphasis on the physical condition of public housing properties. Well, I am having a hard time reconciling that statement with the budget pro-

posal that actually cuts the Public Housing Capital Fund by more than a quarter of a billion dollars, both last year and then again this year.

Let me just share with you how those Federal capital grants have impacted a PHA in my State. King County Housing Authority has been trying for a long time, for years, to install fire prevention sprinkler systems into all their older buildings that house the elderly and house the disabled. They have had an increasing number of fires, and one of them resulted recently in a fatality.

These cuts in capital grants have meant that the installation of those safety systems are taking longer and longer and longer to get done, and it is really putting people who live there at risk.

If the Department is so concerned with the condition of public housing, why have you allowed funding for this program, the housing capital fund, to drop every year for the last 6 years?

Secretary JACKSON. Let me say this to you, Senator: We believe that the assets which King County and other housing authorities have are marketable. They can issue bonds very easily to cover any expense that they need, because, clearly, they know they are going to receive every month their monies from HUD.

The best example I can give you is what Mayor Daley has done in Chicago. He has issued bonds to the tune of almost \$350 million to address needs, plus using the capital fund. If they did not have those assets, I think the argument that you—the question you just asked, the argument you are making is legitimate.

We have gone back and said use the assets. For years, housing authorities—and I was one of them—asked to be able to issue bonds on our assets so that we could do things that we ordinarily could not do within capital funds. We have given them that authority to do it now. There is no reason why King County or anyone else cannot issue bonds to cover areas that they say are in critical need and do them very quickly. It is being done right there in Chicago. It is being done right there in Philadelphia. It is being done in other cities.

So I don't understand why they cannot address this if it is a really critical need not only through the capital funds, but also through issuing bonds.

Senator MURRAY. Well, maybe we can get you together with them, because they say this is a real challenge, and when they see those declining dollars in the future, they have to pledge their future capital grants from HUD for this purpose, and when those numbers are declining and they don't know that they are there, it is harder and harder for them to do.

Secretary JACKSON. Well, I think the key to it is that, from talking to the investment bankers, they realize—and I have had a chance to talk to them because that was a concern that was raised, a legitimate concern. I said the only way we are not going to meet the obligations of housing authorities in this country is that our Government goes bankrupt. And I do not see our Government going bankrupt, because if we go bankrupt, then we cannot meet any of our obligations.

So I allayed the fears of many of the people on Wall Street about making these bond issues. That is why they have done it in probably 15 cities today, because they know they are going to be paid

out of the income that each housing authority receives around this country.

We have to pay them. Every year they have the operating subsidy, they have the capital subsidy that we have to give. And we have to give it because it is in the budget that you allocate for us each year. So I cannot understand why they cannot do it.

ELDERLY DISABLED HOUSING

Senator MURRAY. Well, let me follow up on Senator Kohl's question on housing for disabled and elderly. The AARP reported that there are currently nine people waiting for every unit available, and the senior population is expected to double by 2030, from 36 million to 70 million.

Given the unmet needs and the growth in the aging population, I find it very hard to see how we can follow through on a huge cut to housing support for elderly, more than 26 percent. How do you justify that?

Secretary JACKSON. Because right now we have fully funded the existing contracts in the 202 program. We did, as I said to Senator Kohl, cut \$190 million, but for 2006, we had and still have 7,000 new units today that have not been developed. In 2007, we have an additional 3,000 units. And all of these to date are being put out through a proposal to be developed.

So I think we are addressing the needs, and if we can clear up, as we have done the pipeline before, we will be happy. That is a program that I think is absolutely important. In fact, I was talking to Chairman Bond about it. You know, I am almost there. I am near elderly. So you will have to look and see where we are in this program. But I believe that clearly right now we are addressing the needs because we have not cut out one existing contract. We have funded 7,000 units for 2006. We have funded an additional 3,000 units for 2007. And then, if necessary, we will fund again.

But I think until we develop those units again, I don't think we should just put money in the budget.

Senator MURRAY. What you were saying to Senator Kohl is there are unobligated funds in the pipeline so, therefore, you are decreasing your request. Well, we don't do that in other programs. There are a lot of unobligated funds in the NASA program, but the President is asking for an increase there because of the need. And I do not understand why the same is not true, because the need is so high, and you are doing a better job of getting the money out the door. But because the need is so high, I do not understand why we are asking—

Secretary JACKSON. Well, I cannot address what the administrator at NASA does, but I can tell you what I have suggested, and my position is that I believe that clearly we can address the needs of the elderly at this point. If I did not, I would go and—I would be the first to tell you. I really do.

Senator MURRAY. All right. Well, thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Murray. I will have a number of questions to follow up on section 202 because, as I mentioned to you, we share those concerns.

SECTION 811

I might as well get to another very serious cut, the 811, a 90 percent reduction in the 811 fund from \$155, almost \$156 million, down to almost \$16 million. How are you supposed to continue the progress toward eliminating costly institutional care that everyone agrees is outdated if 811 is eliminated as a tool for developing permanent supportive housing?

Secretary JACKSON. First of all, 811 is still fully funded. HUD has built about 27,000 units of 811, and there are about a little over 300 in the pipeline today. I still believe, again, that with the fully funded contracts, with the units built, we can address the needs. If it is clear to me that the needs further exceed what we perceive—what we have in the budget, then clearly I will come back and speak with you.

Senator BOND. Well, we are going to have some more questions about that. We will get back to you on that one.

Secretary JACKSON. Okay.

Senator BOND. Because we really think that one is serious. There are many other things I want to touch on very briefly.

IMPROPER PAYMENTS

Improper payments. You found \$1.25 billion in 2004 in the section 8 program, losses estimated \$2 to \$3 billion a year, but under the Improper Payments Information Act of 2002, HUD plans only to target improper payments of no more than 5 percent in 2006 and 3 percent in 2007.

How do you measure and verify these numbers? And has the HUD IG verified your methodology?

Secretary JACKSON. Yes, we have—the HUD IG is involved, but also, chairman, when we came, we had really no way from our perspective of really verifying it. We have got a top-notch information technology person and we react now that we have put in place systems that we can verify for the first time. We are still working with others to even be more specific in verifying it, but I feel a lot better now with the numbers that we are giving you than I would have felt 3 years ago.

Senator BOND. Speaking of numbers, we had to rescind \$2 billion-plus from section 8 for the current year, and you told us you would find it, and now OMB has said you are going to find another \$2 billion.

How are you doing finding the \$2 billion for 2006? And where do you expect to find it from excess section 8 for the coming year?

Secretary JACKSON. I will have to give you a written response to that, Chairman.

Senator BOND. I look forward to that one.

[The information follows:]

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
Washington, DC, August 31, 2006

The Hon. JOHN W. OLVER,
Ranking Member,

The Hon. JOE KNOLLENBERG,
Chairman,

*Subcommittee on Transportation, Treasury and Housing and Urban Development,
The Judiciary, District of Columbia, Committee on Appropriations, U.S. House
of Representatives, Washington, DC.*

The Hon. PATTY MURRAY,
Ranking Member,

The Hon. CHRISTOPHER S. BOND,
Chairman,

*Subcommittee on Transportation, Treasury, the Judiciary and Housing and Urban
Development, and Related Agencies, Committee on Appropriations, U.S. Senate,
Washington, DC.*

The Fiscal Year 2006 Appropriations (Public Law 109-115) Act requires the Department to notify the Committees on Appropriations if the statutory rescission of \$2.05 billion will be met from sources other than section 8. Pursuant to this requirement, the Department is submitting a list of programs that may be used to meet the rescission requirement. With the exception of Drug Elimination Grants, the funds for these programs will expire at the end of fiscal year 2006 if not obligated. The Department will make these funds available to the program offices for obligation almost through the end of September 2006. However, if by the end of September 2006, the funds are not needed then these funds will be used to meet the Department's rescission requirement for fiscal year 2006.

In fiscal year 2002, Congress terminated the Drug Elimination Grants Program. The balances remaining in this program are from recaptures. These balances will be used to meet the rescission requirement. A reprogramming is pending Congressional approval for \$14.5 million of the total \$34 million in the Public Housing Capital Fund. If Congress does not approve the reprogramming in time, then these funds may also be used to meet the rescission requirement.

If you have any questions or if I can provide additional information, please let me know.

Sincerely,

L. CARTER CORNICK III,
General Deputy Assistant Secretary for Legislation.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT POTENTIAL SOURCES FOR FISCAL YEAR
2006 RESCISSION

	Amount
Unobligated Funds Expiring at the End of Fiscal Year 2006:	
HOPE VI (SY 2005)	\$2,946,391
Housing for Persons w/Disabilities (SY 2003)	3,966,849
Housing for Persons w/Disabilities-TB (SY 2003)	118,800
Housing for Persons w/Disabilities (SY 2004)	3,084,243
Housing for Persons w/Disabilities-TB (SY 2004)	1,771,486
Housing for Persons w/Disabilities (SY 2005)	11,420,573
Housing for Persons w/Disabilities-TB (SY 2005)	2,307,920
Housing for the Elderly (SY 2003)	24,727,911
Housing for the Elderly (SY 2004)	3,942,457
Conversion to Assisted Living (SY 2004)	2,467,584
Service Coordinators (SY 2003)	288,703
Service Coordinators (SY 2004)	456,083
Pre-Construction Grant Demo (SY 2003)	4,440,662
Pre-Construction Grant Demo (SY 2004)	19,682,000
Working Capital Fund	2,843,992
Public Housing Capital Fund	¹ 34,810,700
Unobligated funds available until expended:	
Drug Elimination	796,948
Total, non-section 8 sources	121,273,302

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT POTENTIAL SOURCES FOR FISCAL YEAR
2006 RESCISSION—Continued

	Amount
Section 8 Rescission	1,928,726,698

¹ Of this total amount, a reprogramming request has been submitted to Congress for \$14.5 million. If the reprogramming request is not approved by Congress before the end of the fiscal year then the entire \$34.8 million will be available to meet the fiscal year 2006 rescission.

FHA MORTGAGE INSURANCE

Senator BOND. Moving on to FHA, you have heard me raise my serious questions about the single-family mortgage program. It is competing with the private sector, and you are trying to put all kinds of bells and whistles on it to bring in wealthier homeowners to subsidize less economically strong home purchasers.

How is that going to compete successfully with the private mortgages? And how do you expect them to—what role is FHA going to provide that the private mortgage companies cannot provide?

Secretary JACKSON. Let me say this: Our regulations have been an inhibiting force for us to continue to compete with the private market. The first thing that we are doing is getting rid of those inhibiting regulations.

Second, there is a large group of people who do not fit the private market, but yet who have been using, in my mind, many predatory lenders at high interest rates to get loans. We feel deeply that that is the population we need to zero in on. And if we can be flexible in our regulations and offer them the same kind of flexibility that many private entities offer those persons who are not in this limbo area that we call it, we can address the needs.

I don't think that FHA is obsolete. I don't think it has been managed very well, and I don't think we have put our programs out publicly like we should have. We have not been proactive in any of the processes, and so when we asked Assistant Secretary Brian Montgomery to come, one of the things that we stressed with him is that we have to be more active with FHA to get part of the market back. Over the last 10 years, we have—it is the most amazing thing to see how we have lost market, but we have lost market because it is as if we really did not care about being in the market. And I think that clearly, for those persons who are in that limbo area, we should be there for them to make sure that they do not get these high usury rates.

HIGH-RISK BORROWERS

Senator BOND. Well, one of the things I am worried about—there are a number of worries I have about it. In other words, there is a risk that HUD may be taking on the risks of a number of mortgage companies who have taken on high-risk borrowers in the sub-prime market and then FHA gives them a new FHA mortgage. That is bailing out the initial lender, giving the initial lender who had the high rates in the sub-prime market, and you wind up with FHA bearing the loss that they have caused by taking out—giving a sub-prime loan with a high rate to somebody who is not a worthy borrower. So I am worried that FHA is setting itself up to be the chump in this process and leaving people with great problems in defaulted housing.

That relates to other questions, that HUD seems to be permitting nonprofits funded by a property seller to fund the downpayment so that they get the 3 percent downpayment requirement, but the seller puts money into a charity that provides and raises the price by 3 percent so the homeowner who may not be economically able to carry a mortgage has essentially a zero downpayment no-risk mortgage, which, based on the experience we have seen, is destined to be a disaster.

Now, those things worry me about what FHA is doing. Please respond.

Secretary JACKSON. Well, let me say this: You are absolutely correct. That was the posture of FHA for a period of time. That is not our posture today because we see that as unacceptable because we are creating severe problems for the prospective homeowners. And, clearly, we do not think that is what we should be doing.

That is why we are asking you to look at the Flexible bill that we are sending you today, to give us the power to cut many of the regulations so we can deal directly with this group that is right in the middle rather than having the lenders that you just spoke about dealing with that group.

So I do not disagree with you. That has been our posture, but that is not our posture today.

Senator BOND. I will come back to that after Senator Murray asks her questions.

HOMELESSNESS

Senator MURRAY. Thank you, Mr. Chairman.

Mr. Secretary, you noted in your testimony that you currently serve as the Chairman of the Interagency Council on Homelessness. Last year, our committee directed the Council to assess an issue that I care a great deal about, and that is the educational rights of homeless children. I have worked very hard to strengthen the protections for homeless children in the No Child Left Behind Act, the Individuals with Disabilities Act, Head Start, Higher Education Act.

Can you tell me, as Chairman of the Interagency Council, what the status and preliminary findings of your assessment are yet?

Secretary JACKSON. Honestly, Senator, I cannot, but I will find out for you. I was not Chairman—I have been Chairman now for about 4 months. I did not know that you had asked for that, but I will ask where it is and I will make sure that I get back to you directly, because I did not know you had asked for that.

Senator MURRAY. Okay. I would really appreciate that. I have been really concerned by some reports I have heard that homeless shelters may be requiring homeless children today to change schools and that certain school districts are being allowed to skirt their responsibilities to provide transportation. And I want to know exactly what is happening with that and—

Secretary JACKSON. I will get back to you.

Senator Murray [continuing]. What leadership your agency is demonstrating to make sure those homeless kids their educational rights in this country. So I will be hearing—

Secretary JACKSON. I will get back to you immediately.

[The information follows:]

INTERAGENCY COUNCIL ON THE HOMELESS REPORTS

The House Conference Report 109–307, on page 293 of H.R. 3058, the “Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act of 2006,” enacted as Public Law 109–115, directed the Interagency Council for the Homeless to conduct an assessment of the guidance disseminated by the Department of Education, the Department of Housing and Urban Development, and other related Federal agencies for grantees of homeless assistance programs on whether such guidance is consistent with and does not restrict the exercise of education rights provided to parents, youth, and children under subtitle B of title VII of the McKinney-Vento Act. This assessment also addressed whether the practices, outreach, and training efforts of these agencies serve to protect and advance such rights. The Interagency Council for the Homeless submitted to the House and Senate Committees on Appropriations the attached interim report on May 1, 2006, and the attached final report on October 25, 2006.

[CLERK’S NOTE.—The reports referenced above have been retained in the committee files, and are also available in part at <http://www.usich.gov/slocal/EducationWebPost.html>.]

PHAS OPERATING COSTS

Senator MURRAY. Very good.

You are, as you told us, the first Secretary of HUD who actually ran a housing authority, and I appreciate that. But I have heard from some of the larger PHAs up in the Northeast that are heating with natural gas that now they have to commit half of their Federal operating funds just to pay for those utility costs. And I was just curious if you were running one of those PHAs up there and now having to pay those tremendous costs for your utility bills, what would you do? Eliminate services for elderly? Reduce maintenance? What decisions would you make in order to pay for that?

Secretary JACKSON. You know, I cannot answer that question because to me—and I do not mean to dodge the question. That is speculation because it is very strange to me. I have not heard that yet. And I know the prices of natural gas have gone up, but no one has brought that to my attention. So if there is a large number that that is occurring—

Senator MURRAY. There is—

Secretary JACKSON [continuing]. I will be happy to look into it.

You know, let me say this to you, Senator—and I believe exactly what you just said. What bothers me tremendously is I have been very open to industry. It is amazing how they come to you with stuff, and I have been the most open Secretary and the only one that was their colleague at this level, and they do not bring it to me. And I hope they are here and they hear what I am saying, because they bring problems to me, but they do not bring other stuff to me. And if they are going to still want accessibility to me, I would much rather for them to tell me that than me be surprised today with something that you have said and they have not brought it to me.

Senator MURRAY. Okay. I am hoping they heard that.

Mr. Chairman, I have a number of other questions that I will submit for the record. Particularly, I have some on Katrina, but I understand you are coming before the committee next week to talk directly about that.

Secretary JACKSON. Yes.

Senator MURRAY. So I will save those for that time.

Secretary JACKSON. Thank you.

Senator BOND. Thank you very much, Senator Murray. I am going to close up, too, but I also am looking forward to talking with you and Mr. Donohue, the HUD IG, about Katrina, because we are being asked to put a whopping big amount in, and I kind of wonder—like Jerry Maguire, “Show me the money.” Where did it go?

But we were talking the last time about the gifts for the down-payment. Have you stopped that practice? Have you made it clear that this is not a legal practice for—

Secretary JACKSON. Have we stopped that practice?

I am sorry. We are waiting—I am sorry. I knew we had brought—we are waiting on the IRS to come with a recommendation to us because, clearly—

Senator BOND. It seems to me, the IRS or no IRS, it is a recipe for disaster, and, you know, I think you ought to be looking at the risks that are entailed with accepting this. I mean, I don’t care—

Secretary JACKSON. You are right.

Senator BOND [continuing]. What the IRS says about it. I am worried about what it does to the FHA.

Secretary JACKSON. Chairman, I agree with you, and I will do that.

SECTION 8 CUT

Senator BOND. And to go back to what I was saying about section 811, the budget request is a 50 percent reduction, but only about \$15 to \$16 million is going to be left for new construction. The rest will go to rental payments for current projects and vouchers, and so when I said 90 percent cut, the new construction available under the budget request for 811 is only \$15 to \$16 million, and it seems to me that there are a lot more needs out there than that.

Secretary JACKSON. Yes, sir.

PREDATORY LENDING

Senator BOND. All right. Predatory practices, what are you doing to reduce predatory lending? And how successful have you been?

Secretary JACKSON. I think we have been very successful. We are working extremely hard because we are concerned about that, especially in the Northeast. It is—and when I say the Northeast, I am talking everything from Washington, DC back. It has been absolutely astounding, and also—

Senator BOND. One of our very good friends from Baltimore, who is not here today, will have a lot to say about that, and on her behalf, I reiterate the concern that she has had with that practice.

Secretary JACKSON. And she has been working well with us, and we have talked to her on numerous occasions regarding that.

Senator BOND. Good. FHA multifamily, you are proposing increased mortgage insurance premiums. Again, some have suggested this could have a chilling effect on the development of multifamily housing projects. Why is the fee necessary? And have you conducted an impact analysis on the marketplace? And if so, what did you find?

Secretary JACKSON. I do not know the answer to that, Mr. Chairman. I will get back to you.

[The information follows:]

FHA MORTGAGE INSURANCE PREMIUMS

The Department's budget stated that FHA would apply a 32 basis point increase on the FHA mortgage insurance premiums for all multifamily projects except mortgages for projects that utilize low-income housing tax credits, and GSE and HFA risk-sharing. This increase was to apply to both initial and annual premiums. In no case, however, was the resulting premium to exceed 80 basis points. The purpose of the increase was to permit continuation of the program while at the same time offsetting taxpayer liability for the program's administrative costs and any potential financial losses arising from insuring these mortgages. The proposal was prompted by the outcome of an evaluation of the program using OMB's Program Assessment Rating Tool (PART). That evaluation raised questions concerning program targeting and its overall efficiency. Since submission of the budget, HUD staff has had the opportunity to have numerous discussions with Congressional staff and the industry on this topic. Both have raised legitimate concerns about the impact such a premium increase would have on HUD's ability to foster the development of much needed rental units. The Department realizes these concerns must be addressed before any increases are made to insurance premiums. The Secretary is committed to fully discussing the proposed increase with the industry and Congressional leadership before any action is taken.

Senator BOND. All right. Finally, you are chairing the Inter-agency Council on the Homeless. How are you doing meeting your goals? How much progress has been made to meet the goal of 150,000 units of permanent housing? And when do you expect to achieve it?

Secretary JACKSON. I would prefer to speak, Mr. Chairman, to you and the Ranking Member in private about that.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. All right. Well, the nice thing about it is this conversation will be continued. We have lots of things to work on. I believe that that concludes it. There will be—I am sure that the ranking member and I will have several questions for the record, and if any other members of the subcommittee have questions for the record, we would ask them to get them in by the end of this week. And we will expect your replies in a timely fashion and look forward to continuing these discussions.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

PUBLIC HOUSING OPERATING FUND—NEW RULE

Question. The fiscal year 2007 budget request maintains funding at \$3.564 billion for the Public Housing Operating Fund. According to the National Association of Housing and Redevelopment Officials, this level of funding would represent only 81 percent of actual operating subsidy needed for fiscal year 2007 as housing authorities shift to asset-based management. Additionally, the implementation of the new regulations for the Public Housing Operating Fund provides a new formula for distributing operating subsidy to public housing agencies (PHAs) and establishes requirements for PHAs to convert to asset management. What is HUD's plan for assisting PHAs to come into compliance with this new approach?

Answer. The Department has issued a significant amount of guidance and information regarding the transition to asset management. Most of the guidance has been shared with interested PHAs and representatives of the industry groups that represent PHAs while it was in draft form to solicit input prior to finalization and publication. Since publication of the rule, the Department has held approximately 20 meetings with PHAs and the industry groups to discuss the steps required for implementation of asset management. All guidance has been shared with these groups prior to the meetings and working drafts provided for comment and recommendations.

The transition to asset management is a complex undertaking and the Department recognizes that a great deal of guidance and information for both PHAs and HUD staff will be necessary to ensure a successful transition. For that reason, the Department has been taking a phased approach at getting the guidance developed and issued, rather than issuing one set of guidance that is expected to cover all actions required over several years as PHAs transition to asset management.

On the day that the Final Rule was published, the Department met with representatives of the industry groups to provide a copy of the rule and to discuss next steps. The Final Rule was published on September 19, 2005 and in response to concerns raised by PHAs and the industry groups over the implementation of the rule in fiscal year 2006, the Department issued a revision on October 24, 2005, pushing the implementation date back to October 1, 2006. On November 2, 2005, the Department published Notice PIH 2005-34 (HA) that provided an overview regarding implementation of the Final Rule for the Public Housing Operating Fund Program. This Notice was for informational purposes only and informed PHAs of various upcoming notices and other activities tied to the implementation of the Final Rule.

On December 28, 2005, the Department published a Federal Register Notice that provided supplemental information regarding the Department's method of calculating public housing operating subsidy under the Final Rule. The Notice explained the computation of the Project Expense Level (PEL) that is one factor in the formula expenses component of the Operating Fund Formula. The Notice provided a step-by-step description of the computation of the PEL so that PHAs would understand how their PELs would be calculated.

A key component of the transition to asset management is the need for each PHA to identify their project or property groupings. Recognizing that the current project numbering system did not necessarily reflect the appropriate grouping of buildings for management purposes, the first step was to allow PHAs to self-identify their project groupings. After a series of meetings with PHAs and industry groups, the Department issued Notice PIH 2006-10 (HA) on February 3, 2006 that provided guidance and related instructions to PHAs and HUD field staff regarding the identification of projects for purposes of asset management. On February 28, 2006, and March 1, 2006, the Department held meetings with the HUD field office staff to discuss the Notice and to conduct a live demonstration of the computer screens that the PHAs would see when they entered their project grouping information. On March 8, 2006, the Department conducted a video broadcast with the PHAs and HUD field office staff on the project groupings' Notice and conducted a demonstration of the computer screens for both PHAs and field office staff. The broadcast was taped and used as a webcast on March 15, 2006 and March 23, 2006. The webcast is stored in the Department's archives of webcasts and can be accessed from its web site at www.hud.gov.

On March 22, 2006, the Department issued Notice 2006-14 (HA) that provides guidance to PHAs on the criteria for asset management. This criteria is for those PHAs that want to submit documentation of successful conversion to asset management in order to discontinue their reduction in operating subsidy under the Operating Fund Program Final Rule, commonly referred to as the "stop-loss" provision. This Notice was discussed thoroughly with PHAs and representatives of the industry groups prior to publication and the industry groups provided the working drafts of the Notice to their members through their web sites and provided extensive information and comments about it through their publications.

The Department has held a series of meetings with PHAs, the industry groups and the private market vendors that offer computer assistance and software programs used by a number of PHAs. The meetings with the IT professionals and the vendors are to assure that any changes to systems and software can be done, as necessary, so that PHAs do not experience system problems as they transition their inventory to an asset management model.

The Department has also held a series of meetings with PHAs, the industry groups, Fee Accountants, Certified Professional Accountants, Independent Professional Auditors and representatives of the American Institute of Certified Public Accountants (AICPA) to discuss the necessary financial reporting changes. The Department will issue guidance to PHAs on asset-based accounting and budgeting requirements. The first group of PHAs that will have to maintain their books on an asset-based approach will be those PHAs whose fiscal year begins July 1, 2007. The Department intends to have the guidance issued prior to July 1, 2006, so that PHAs will have a full year to implement any necessary changes to their accounting systems. The last group of PHAs that will have to maintain their books on an asset-based approach are those PHAs whose fiscal year begins March 31, 2008.

Question. Given the anticipated shortfall, how will your budget fully implement the negotiated rule, including transitional costs?

Answer. Many PHAs have healthy levels of operating reserves. At the end of fiscal year 2005, nationwide, PHAs had approximately half a billion dollars in reserves that can be used to support the operation and maintenance of low-income housing. PHAs are allowed to retain all of the income they receive from investments and other non-dwelling rental income such as income from rooftop antennas, laundry receipts, etc. In 2005, this other income accounted for \$298 million. For purposes of subsidy calculation, rental income is frozen at 2004 levels, which means that any increase in rental income does not decrease the amount of subsidy that the PHA will receive in 2006 and 2007.

There is much to be gained through providing needed program and regulatory reforms that will give PHAs the flexibility to address their locality's housing assistance needs. By unlocking the potential that PHAs have in their assets, additional funding can be obtained to make needed improvements in housing stock or to develop an additional type of affordable housing that is self-sustaining and not wholly dependent upon Federal appropriations. PHAs will be able to make local program decisions and to focus their housing resources in a way that makes sense for their communities while seeing reduced regulatory costs. Through a variety of programs, the Department has encouraged PHAs to look at their inventory and make informed management decisions about the housing stock. Steps that PHAs have taken include demolishing the worst, and often most expensive housing stock, entering into energy performance contracts to reduce the cost of utilities, and switching to tenant-paid utilities.

MOVING TO WORK PROGRAM (MTW)

Question. MTW has enabled public housing authorities to implement federally-funded housing programs based on local needs by providing budget flexibility and regulatory relief. The fiscal year 2006 TTHUD Appropriations Conference Report provided a 3-year extension to MTW agreements that would expire on or before September 30, 2006. While we thank you for the extension, the Pittsburgh Housing Authority's MTW agreement expires 3 months after the September 30, 2006 deadline. Would you be willing to work with the Pittsburgh Housing Authority to grant them a similar extension as was received by all housing authorities expiring 3 months earlier?

Answer. The Department has agreed to grant the Housing Authority of the City of Pittsburgh (HACP) a 1-year extension to their MTW Agreement. Following subsequent communication between your office and HUD, the Department is currently considering granting HACP a 3-year extension rather than a 1-year extension.

The Department has expressed its willingness to continue and expand MTW through Title III of the proposed State and Local Housing Flexibility Act. While this bill is under consideration in Congress, the Department recognizes HACP's desire to avoid a lapse in their participation in the demonstration.

Question. Could you please clarify why some public housing authorities initially received MTW extensions through 2011, yet similar extensions have not been granted to other requesting housing authorities?

Answer. No current MTW housing authorities have received an extension to continue their MTW demonstration until 2011. Agreements for only three of the demonstration participants have expiration dates that occur in 2011 or 2012: Oakland, Baltimore, and Chicago. Oakland and Baltimore only recently executed their agreements and were given the now standard 7-year term. Their Agreements expire in 2011 and 2012 respectively. Due to the complexities of Chicago's Transformation Plan, their initial Agreement provided for a 10-year demonstration term, which expires in 2011.

It should be noted that the issue of extensions would not be a matter of concern under Title III of the State and Local Housing Flexibility Act (SLFHA), which is awaiting Congressional action. In Title III, the MTW Demonstration Program is made permanent and participating PHAs will meet certain performance requirements, not arbitrary time periods for participation. SLFHA would provide funding and program flexibility to PHAs; would allow agencies to develop program implementations that respond to local market conditions; would allow fungibility and flexibility needed to achieve greater cost-effectiveness in Federal expenditures; increase housing opportunities for low-income households; reduce administrative burdens; allow Federal resources to be more effectively used at the local level; and enable families to achieve economic self-sufficiency.

STRENGTHENING AMERICA'S COMMUNITIES INITIATIVE (SACI)

Question. The President's budget outlines a modified SACI (Strengthening America's Communities Initiative) proposal where only 2 of 18 economic development pro-

grams would be funded—HUD’s CDBG program, and a Regional Development Account within Commerce’s Economic Development Administration. In fiscal year 2006, Congress funded these 18 programs at a combined level of \$5.3 billion. The fiscal year 2007 budget proposes only \$3.36 billion—a reduction of nearly \$2 billion. Additionally, the fiscal year 2007 budget proposes a plan for a new CDBG funding allocation formula. Given the drastic cuts in funding to the CDBG program, altering the formula would likely result in cutting off CDBG funding to hundreds of municipalities—the expected loss in CDBG to PA is \$56.5 million. How does HUD intend to achieve the impact of these 18 programs, with a nearly \$2 billion or 37 percent reduction in funding?

Answer. The fiscal year 2007 budget request for CDBG is an acknowledgment that HUD and its grantees are actively working to address the current and future effectiveness of the CDBG program. With regard to the proposed CDBG formula changes, a recent study by the Office of Policy Development and Research clearly indicates that targeting to community development need has fallen dramatically since the formula was established 30 years ago. Restoring a greater degree of equity to the distribution of CDBG funds will help offset any reductions experienced as a result of reduced funding levels. The HUD budget does propose consolidation of the Brownfields, Rural Housing and Economic Development program and the section 8 Loan Guarantee program, all of which can be funded as eligible activities through the mainstay CDBG program. In addition, these are small programs compared to the scale of CDBG funding.

In addition to formula reform, the creation of a Challenge Fund will further target grants to effective efforts as high impact projects in distressed communities. Finally, the ongoing development of effective performance measurement efforts will add to the efficiency and effectiveness of the CDBG program.

Question. How does HUD intend to address the unmet CDBG funding needs in municipalities that will lose funding under the new formula?

Answer. Any proposed formula revision would not alter or restrict the list of CDBG eligible activities. CDBG will retain its hallmark flexibility and emphasis on local decision-making and, through the proposed formula reform, HUD will establish a strong foundation for the future of the CDBG program. These reforms include:

- A proposed formula change to target to need. The formula change will direct a higher proportion of resources to areas with greater need than under the existing formula and areas with similar needs will receive similar funding;
- In addition, the reform includes bonus funds to reward more effective grantees;
- Finally, there is improved performance measurement, which will lead to a more effective national program and greater local impacts.

ELIMINATION OF HOPE VI

Question. HOPE VI enhances communities by decentralizing poverty and giving families an opportunity to live in mixed-income neighborhoods with better educational and employment opportunities. I have visited HOPE VI sites throughout Pennsylvania and have discovered the critical impact that reconstruction in these public housing developments has on revitalizing neighborhoods. As HOPE VI has accomplished one of its goals of demolishing 100,000 units—which suggests to me that the program has been effective—how does HUD propose to accomplish this level of reconstruction in the future if HOPE VI is eliminated?

Answer. As a result of the HOPE VI program and other initiatives, the Department’s goals for demolition of the worst public housing have been met. However, the HOPE VI program has shown to be more costly than other programs that serve the same population. For example, a GAO report (GAO-02-76) stated that the housing-related costs of a HOPE VI unit were 27 percent higher than a housing voucher and 47 percent higher when all costs were included.

The Department recognizes the importance of addressing the current capital backlog within the public housing inventory and believes that this need can be more appropriately met through other modernization programs operated by the Department; e.g., the Capital Fund, Capital Fund Financing Program, non-HOPE VI mixed-finance development including leveraging private capital investment, required and voluntary conversion, section 30, and the use of tax credits. The Department will encourage housing authorities in need of this assistance to submit proposals under these programs. The Department has already approved over \$2.5 billion in 61 transactions involving 131 public housing agencies under the Capital Fund Financing Program.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

ELIMINATION OF SECTION 811

Question. This is second year in a row that the administration is attempting a deep cut to the HUD section 811 program. For fiscal year 2006, the proposal was to completely eliminate funding for new capital advance/project-based units. Congress rejected this idea in 2005—both the House and Senate Appropriations Committees restored funding. This year, the proposal is to impose another reduction to the capital advance/project-based side of the program—a 90 percent reduction, from \$155.7 million, down to \$15.84 million.

Additionally, the President's New Freedom Initiative spans numerous Federal agencies including HHS, Education, Labor and HUD. It is designed to promote integration of people with disabilities into the mainstream of community life through access to health care, education, employment and housing. It is based on the principle of life in the community as an alternative to institutional settings such as nursing homes and psychiatric hospitals. These deep reductions to the 811 program run completely against the important national goals contained in the New Freedom Initiative.

Secretary Jackson, how are States and communities supposed to continue progress toward eliminating costly institutional care if 811 is eliminated as a tool for developing permanent supportive housing?

Answer. The budget proposes \$119 million for the Housing for Persons with Disabilities program. Despite the section 8 funding absorbing a majority of the Department's budget, we are able to direct significant funding to the section 811 program that provides for: (1) funds to renew and amend existing contracts; (2) \$13.2 million for the construction of additional new units, and (3) continued financial support for the 27,000 units that we have already constructed and for the 314 projects (about \$400 million) in the construction pipeline.

Question. What resource will replace the permanent supportive housing developed by section 811?

Answer. We have not abandoned new construction in favor of vouchers. We believe that both forms of assistance are needed to properly serve persons with disabilities.

QUESTION SUBMITTED BY SENATOR HERB KOHL

CUTS TO SECTION 202

Question. The section 202 program provides funding for local non-profit agencies to construct and manage housing for low-income seniors. The section 202 program creates safe and affordable communities where senior residents have access to the services that allow them to live independently. With the number of individuals over the age of 65 expected to double in the next 24 years, how can you explain the proposal in the administration's budget to cut section 202 funding by \$190 million in fiscal year 2007?

Answer. Despite the fact that section 8 renewal funding absorbed a majority of the Department's budget, we are able to direct significant funding (\$546 million) to the section 202 program to provide for: (1) congregate services; (2) service coordinators; (3) funding to convert projects to assisted living; \$414.8 million for the construction of new units; and (4) funds to renew and amend existing contracts.

The Department has always and continues to be a proponent of housing for the elderly. We have constructed approximately 400,000 units specifically for the elderly and have 342 projects (about \$1.6 billion) in the construction pipeline. In addition, we serve an additional 675,000 elderly families under other HUD rental assistance programs.

We also are ensuring that elderly families who own homes can remain there through FHA's reverse mortgage program. In 2005, we insured 43,131 reverse mortgages and we are seeing a steady increase in this area.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

WHY CUT CDBG FUNDS?

Question. I met with many of the Chicago aldermen last week while they were here in Washington, and one of the first things they asked me about was Community Development Block Grants. They asked: should we just assume a 10 percent cut in CDBG funds when we plan our upcoming budgets? They went on to tell me

how devastating that would be, and how much good they can do in their local communities in Chicago thanks to those CDBG funds. So my question is this: why does the Bush Administration want to cut CDBG funds each and every year?

Answer. The administration's fiscal year 2007 budget requests more than \$3 billion in funding for CDBG. While the request is lower than the fiscal year 2006 appropriation level, the accompanying formula reforms will enable these funds to be better targeted to the Nation's most distressed communities. Over time, the program's targeting to community development need has been diffused as a result of demographic changes, development patterns and other factors. Therefore, HUD is proposing to reform the program so that it can continue to meet its objectives. Reform has four components: formula reform to restore appropriate targeting and preserve fairness in the distribution of funds; creation of a Challenge Fund that would enable effective CDBG grantees to obtain additional funding for community and economic development activities in distressed neighborhoods; consolidation of duplicative programs; and implementation of a performance measurement framework to establish clear, measurable goals of community progress to show the results of our formula programs. In addition, each CDBG grantee will retain the ability to utilize their CDBG funds as they see fit, but will have to carefully prioritize their needs in order to use those funds most effectively.

CAN HUD AND HHS WORK TOGETHER?

Question. We all share the goal of eliminating the homelessness epidemic in this country. The experts tell me that in order to do so the chronically homeless must be provided with services such as addiction treatment, mental health counseling, job training, and so forth in addition to housing, in order to keep them off the street and help them become productive members of society. Do you believe that your department can best manage the provision of these services, or should the Department of Health and Human Services handle this effort? If HHS should be doing this, how can you ensure that HUD and HHS will effectively work together to provide the complete services that these folks desperately need?

Answer. The McKinney-Vento Act authorizes the use of HUD funds for a variety of supportive services through the Department's Supportive Housing Program. As such, since enactment of the Act, HUD has provided funding for housing as well as supportive services. HUD has and continues to work closely with the Department of Health and Human Services (DHHS) and other departments that provide supportive services for homeless persons, including the Departments of Veterans Affairs and Labor. All such agencies are members of the U.S. Interagency Council on Homelessness (ICH). The ICH agencies have been working collaboratively on a number of fronts in recent years, including demonstration programs to provide needed housing and supportive services for chronically homeless persons. In these demonstrations, HUD provided resources for housing, and other agencies, including DHHS, provided needed supportive services. These demonstrations, now underway, will provide useful insights on collaborations between the Federal partners involving housing and services.

CAN HUD PROVIDE HOUSING DURING DISASTERS?

Question. We've watched in disgust as the Gulf Coast residents who lost their homes to Hurricane Katrina have been locked in sports stadiums, bused to different States, kicked out of hotels . . . and maybe, just maybe, offered a trailer in a location that is not at all conducive to finding a job or rebuilding a sense of community. FEMA has shown that it is simply not up to the challenge of providing permanent housing to such a large number of displaced families. What can HUD do to step in here on behalf of the families in the Gulf? In preparation for the next disaster, what role should HUD be prepared to play in providing both short term and long term housing to those in need?

Answer. The \$11.5 billion enacted for disaster assistance under the Community Development Block Grant program can be used by States to address the housing needs of families in the Gulf. The flexibility of the CDBG program works well in the grey area between temporary and permanent housing solutions. Each of the five States has a housing component in its action plan for disaster recovery. Mississippi and Louisiana will directly undertake programs that focus on housing. Alabama, Florida, and Texas will distribute their allocations to various units of general local government to address housing needs. In addition, Texas plans to allocate funding to councils of governments to carry out housing as part of their overall activities.

Following issuance of the report, The Federal Response to Hurricane Katrina: Lessons Learned, and at the direction of the Homeland Security Council, HUD began actively exploring options for implementing the recommendation that HUD

become the lead Federal agency for the provision of temporary housing should that transfer of responsibility occur. HUD's preparation involves consideration of comprehensive and scalable program designs, operations and logistics, program authorities, and appropriation resources for temporary disaster housing program funding, staffing, travel, training, etc.

WHY CUT FUNDING FOR THE ELDERLY AND DISABLED?

Question. At a time in which the President continues to push hard for making permanent the tax cuts that overwhelmingly benefit the wealthy, how can you at the same time justify cutting funding that supports the housing needs of the elderly and the disabled? What does that say about the morals and the priorities of this administration?

Answer. The \$1.1 billion increased cost of serving the roughly 3.4 million families currently receiving section 8 rental assistance required that the Department make some very difficult funding decisions. Our first priority had to be to families currently receiving subsidy.

However, despite the fact that section 8 renewal funding absorbed a majority of the Department's budget, we are able to direct significant funding (\$546 million) to the section 202 program to provide for: (1) congregate services; (2) service coordinators; (3) funding to convert projects to assisted living; \$414.8 million for the construction of new units; and (4) funds to renew and amend existing contracts.

In addition, proposed sufficient funding for the section 811 program provides for: (1) funds to renew and amend existing contracts; (2) \$13.2 million for the construction of additional new units; and (3) continued financial support for the 27,000 units that we have already constructed and for the 314 projects (about \$400 million) in the construction pipeline.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

HOUSING FOR THE ELDERLY AND DISABLED PROGRAM CUTS

Question. A large number of North Dakotans who take part in public housing programs are elderly or disabled. Many of these folks cannot work, and if they do, cannot afford suitable housing without assistance. We are now on the front edge of the boomers turning senior and my State doesn't have housing available for the rapidly growing 30 percent of median and under portion of this group. This is a problem that the section 202 Elderly Housing Program and section 811 Disability Housing Programs were designed to address. In my opinion, these programs should be expanding not contracting. If you were in my shoes, how would you justify cutting section 202 by 25 percent and section 811 by 50 percent to my constituents?

Answer. Our first priority for fiscal year 2007 was to provide for the \$1.1 billion in increased costs associated with serving the roughly 3.4 million families currently receiving section 8 rental assistance. This required that the Department make some very difficult funding decisions.

However, despite the fact that section 8 renewal funding absorbed a majority of the Department's budget, we are able to direct significant funding (\$546 million) to the section 202 program to provide for: (1) congregate services; (2) service coordinators; (3) funding to convert projects to assisted living; \$414.8 million for the construction of new units; and (4) funds to renew and amend existing contracts.

In addition, proposed sufficient funding for the section 811 program provides for: (1) funds to renew and amend existing contracts; (2) \$13.2 million for the construction of additional new units; and (3) continued financial support for the 27,000 units that we have already constructed and for the 314 projects (about \$400 million) in the construction pipeline.

CUTS TO COMMUNITY DEVELOPMENT BLOCK GRANTS

Question. This year, the President's budget calls for a \$1 billion reduction in the CDBG program, representing a 25 percent loss in funding from last year's levels. Because of its flexibility and use in a variety of projects, local and State governments in Grand Forks, Fargo, and other North Dakota communities have come to rely on the program as the cornerstone of any new community revitalization effort. Folks at various North Dakota Housing Authorities tell me that for every \$1 of the CDBG program invested in communities, \$3 are leveraged in private funding, bringing much-needed investment, and jobs in North Dakota communities. I support this program and am pleased that Congress rejected the administration's proposal to eliminate CDBG last year. I see the proposed cuts as evidence that the administra-

tion is abandoning its commitment to America's communities in the guise of reform. How would you respond to that, Mr. Secretary?

Answer. The administration's fiscal year 2007 budget proposal is a clear statement of commitment to America's communities and of support for the CDBG program. It retains the program at HUD, funds it at a level of \$3 billion, and proposes a series of legislative initiatives that will ultimately strengthen the CDBG program. HUD is committed to seeing these reforms enacted and establishing a strong foundation for the future of the CDBG program. These reforms include:

- A proposed formula change to target to need. The formula change will direct a higher proportion of resources to areas with greater need than under the existing formula and areas with similar needs will receive similar funding;
- In addition, the reform includes bonus funds to reward more effective grantees;
- Finally, there is improved performance measurement, which will lead to a more effective national program and greater local impacts.

NATIVE AMERICAN HOUSING AND SELF-DETERMINATION ACT BILL LANGUAGE CONTINUATION

Question. The fiscal year 2007 budget requests the continuation of bill language included in last year's HUD appropriations Act that amends the Native American Housing and Self-Determination Act funding formula to require that HUD distribute funds on the basis of single-race or multi-race data, whichever is the higher amount. What is the Department rationale for including this language in fiscal year 2007, given that it generated a fair amount of controversy among the tribes and tribally designated housing entities in fiscal year 2006? Wouldn't it be preferable to consider whether changes are appropriate to the funding formula as part of the NAHASDA reauthorization process, which we will be engaged in the 110th Congress?

Answer. The fiscal year 2006 HUD Appropriations Act (2006 Act) contains a provision directing the Department to implement what is commonly known as the "hold harmless" provision. This calls for the Need component of the Indian Housing Block Grant (IHBG) formula to be calculated twice for each tribe, once using single-race data and once using multi-race data. Each tribe is then awarded the higher of those two amounts.

Until reauthorization of the Native American Housing Assistance and Self-Determination Act (NAHASDA) is addressed, and Congress determines what statutory changes, if any, it will enact during the reauthorization process, the Department has determined that the best course of action to follow is to continue the methodology Congress provided in the 2006 Act. This will ensure stability and continuity in the way that IHBG recipients receive their IHBG formula funding.

RISING UTILITY COSTS IN PUBLIC HOUSING

Question. Public housing and voucher program participants make a monthly housing payment that covers rent and utilities. As utility costs skyrocket, energy costs consume a greater and greater proportion of the housing payment. This means that housing authorities receive less in the form of rent for public housing. The utility over payments in the Voucher program come directly out of the fixed administrative fees allocated by HUD. In public housing, I'm told that increased utility costs could easily tap out these reserves. Under the President's proposal, there is not a utility allowance adjustment. Do you think that HUD is prepared to cover skyrocketing utility bills?

Answer. While the Department will not know the actual cost of utilities for fiscal year 2006 until PHAs submit their financial statements for the past 5 to 7 years, PHA utility costs have remained relatively stable with no dramatic spikes. Immediately after Hurricane Katrina, utility rates spiked and then came down considerably.

The 2007 Utility Expense Level (UEL) for the Public Housing Operating Fund is calculated based upon a 3-year rolling average to account for increases as well as decreases in the cost of utilities over a period of time. Although, the Department's 2007 utility expense estimate is based on actuals from a 3-year rolling base inflated by the OMB utility inflation factor of minus 1.8 percent, it is difficult to estimate the impact of utilities without actual cost data.

However, over the past 3 fiscal years (2003–2005), PHAs have been able to retain over \$100 million in excess utility payments made to them, which are available as a part of their operating fund reserves to cover operational and maintenance costs of their program. Also, to reduce the cost of utilities, the Department encourages PHAs to enter into energy performance contracts, and to also switch to tenant-paid utilities. Switching to tenant-based utilities does not shift the cost of utilities to the

persons needing the assistance because the tenant's rent is lowered by the amount of the standard utility allowance, and the tenant becomes responsible for the entire utility cost, above or below what the standard utility allowance was before the change in policy. This will encourage personal responsibility of tenants in conserving energy and reducing utility consumption and will reduce, or at least make predictable, the utility expense of the PHA and the Department. In addition, the Energy Policy Act allows for energy performance contracts to run for up to 20 years instead of 12 years. This should allow PHAs and HUD greater certainty in planning their utility expenses, and responding to unexpected variations in consumption or price.

The Housing Choice Voucher program assists families with the gross rent, which is not only the rent due to the owner, but also includes applicable utility allowances for any tenant supplied utilities. The individual PHA establishes the utility allowances for its program. These allowances must be based on the typical cost of utilities and services paid by energy-conservative households that occupy housing of similar size and type in the same community. In accordance with 24 CFR 982.518(c), the PHA must review its schedule of utility allowances each year, and must revise its allowance for a utility category if there has been a change of 10 percent or more in the utility rate since the last time the utility allowance was revised. Funding to cover these allowances is part of the Housing Assistance Payment (HAP) subsidy amount provided by HUD for rental assistance; it is not part of the administrative fee provided to a PHA to manage the program. Starting in fiscal year 2005, Congress has provided funding to PHAs based on a budgetary formula and has directed PHAs to manage all increases in HAP costs, including increases in utility allowances, within that budgetary allocation.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

CUTS TO COMMUNITY DEVELOPMENT BLOCK GRANTS

Question. This is the second year that the President's budget seeks drastic cuts and changes to CDBG. The request would slash CDBG by over \$1 billion, leaving funding at its lowest level since 1990. This program is a critical source of funding for affordable housing, supportive services, public improvements, and community and economic development.

The National Low Income Housing Coalition estimates that if further cuts to CDBG are enacted, then an estimated 97 percent of the more than 1,000 communities that have held entitlement status since fiscal year 2004—when we reached the highest level of CDBG funding under this administration—or earlier would have their CDBG allocation slashed by at least one-third. Each State would also see its allocation reduced by at least a third compared to the fiscal year 2004 funding level.

Secretary Jackson, your Department is principally responsible for housing and community development. How do you justify a budget that slashes funding for this most successful initiative that supports economic development and affordable housing?

Answer. The fiscal year 2007 budget of \$3.032 billion for CDBG reflects a reduction of approximately \$700 million from the enacted fiscal year 2006 level. The administration's fiscal year 2007 budget proposal recognizes the value of the CDBG program to local community development efforts in two ways. First, it maintains the CDBG program at HUD as opposed to consolidating or transferring it to another agency. Second, the budget requests funding for the CDBG program at a level of more than \$3 billion. In addition, the fiscal year 2007 budget proposal improves the effectiveness of the program in several significant ways. The proposal is as follows:

- proposed formula change will direct a higher proportion of resources to areas with greater need than under the existing formula and areas with similar needs will receive similar funding;
- bonus funds will be established to provide additional funds to more effective grantees; and
- improved performance measurement will lead to a more effective national program and greater local impacts.

CUTS TO COMMUNITY DEVELOPMENT BLOCK GRANTS

Question. Is it the President's intention to focus this program solely on job creation and economic development? If so, why don't we call this what it is—the elimination of community development as part of HUD's core mission?

Answer. The proposed reforms of the CDBG program will not alter or restrict the list of CDBG eligible activities. Thus, grantees will continue to make their own decisions as to the activities they will fund with their CDBG dollars—be it public serv-

ices, infrastructure, housing or economic development. The reforms will achieve three goals—CDBG formula reform, improved performance measurement standards for CDBG and implementation of a challenge grant to provide targeted development grants to high impact projects in distressed communities.

CONSOLIDATION OF HUD'S SMALLER COMMUNITY DEVELOPMENT PROGRAMS

Question. I noted that the President's proposal from last year for the "Strengthening America's Communities Initiative" remains alive in the fiscal year 2007 budget request. The administration was soundly beaten back by Congress last year on its proposal to consolidate and slash funding under this initiative for several smaller economic and community development programs with larger programs like CDBG.

The administration pursues this misguided goal for fiscal year 2007 with a proposed consolidation of CDBG with Brownfields Redevelopment grants, Rural Housing and Economic Development, and section 108 Loan Guarantees. It again proposes no funding for these smaller programs and would fund CDBG at 20 percent less than this year.

Since the fiscal year 2007 budget request would fund CDBG at substantially less than this year, as well as consolidate it with those other programs, how do you magically propose to do so much more with so much less?

Answer. The key will be reform of the CDBG formula. A recent study by the Office of Policy Development and Research found that one of the problems with the CDBG formula is that some communities with little need for CDBG funds have received much more on a per capita basis than many communities with much greater needs. Restoring a greater degree of equity to the distribution of funds will help offset any reductions experienced as a result of reduced appropriations levels. The budget does propose consolidation of the Brownfields Economic Development Initiative (BEDI), Rural Housing and Economic Development Program, and the section 108 Loan Guarantee Programs under CDBG. In almost every case, the activities eligible for assistance under these programs can be funded through the CDBG program. This point is demonstrated by the fact that the section 108 and BEDI programs are authorized through the CDBG statute and utilize the CDBG eligible activities list to define their eligible activities.

CUTS TO HOUSING PROGRAMS

Question. I was pleased to see an increase this year for the section 8 voucher program in fiscal year 2007. Finding an affordable place to live is becoming increasingly difficult for many working families in Vermont and the section 8 program often helps bridge the gap for families who are struggling to make ends meet.

Unfortunately due to inadequate funding in fiscal year 2005, local housing agencies budgets continue to be cut this year. Some estimate that 80,000 fewer families may be served by the voucher program as a result, over 200 of those in Vermont. The increase in the fiscal year 2007 budget is enough to undo about half of these reductions—and I thank you for that—but it still falls short of the money needed to restore the cuts we have seen over recent years.

In other areas of the budget we see additional rollbacks. The public housing capital fund is cut by 11 percent, the operating fund is level-funded despite the need for additional funding for the operation of public housing under the new asset-based management system, funds for housing for persons with disabilities have been cut in half, HOME formula grants have been reduced, housing for the elderly programs have been slashed, and both fair housing programs and lead-based paint grants have been cut.

Mr. Jackson, each year the administration submits a budget for HUD that is littered with bullet holes—one year it is section 8, the next it is public housing, the next it is CDBG—and each time the subcommittee is left holding the bag. Can you offer me any assurances that this will not continue in future years?

Answer. While some, including the Center for Budget and Policy Priorities (CBPP), forecasted that approximately 80,000 fewer families would be able to be assisted given the administration's funding request for fiscal year 2005, this has turned out not to be so. In fact more families were assisted in fiscal year 2005 than the previous year and the CBBP has retracted its initial fiscal year 2005 projections in a footnote to its 2006 report. The Department has not been made aware of a single family in the State of Vermont displaced as a result of the fiscal year 2005 budget for the Housing Choice Voucher Program.

HUD has been consistent in its support for the section 8 program. The administration agrees with the appropriators in that the most effective way to deliver section 8 rental assistance is through a fixed budget that allows public housing agencies to properly plan their operations. In support of that approach the President's

budget request currently being debated, includes a \$380 million budgetary increase over 2006 funding levels coupled with a number of key legislative proposals aimed at further improving the efficiency of the Housing Choice Voucher Program. HUD will continue to actively engage in communication with Congress to ensure these important reforms are enacted. By measuring outcomes and aligning incentives, these important programs will be even better.

CUTS TO PROPOSED HOUSING PROGRAMS

Question. How do you expect to run a Department whose core programs are being eroded away bit by bit?

Answer. By appropriately prioritizing resources and proposing reforms to key Departmental programs, including section 8 and CDBG, HUD can continue the advances for the good of the low-income community. Those programs that are not able to drawdown all of its funds or are simply inefficient, must be reformed. HUD will continue to work with Congress to ensure these key reforms are enacted.

SUBCOMMITTEE RECESS

Secretary JACKSON. Thank you.

Senator BOND. Thank you very much. The hearing is recessed. [Whereupon, at 11:04 a.m., Tuesday, March 2, the subcommittee was recessed, to reconvene subject to the call of the Chair.]